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EXCERPTS FROM REQUESTED FINDINGS AND BRIEF ON BEHALF OF RESPONDENTS

(Filed with the Securities and Exchange Commission)

DOCUMENT No. 610—R. pp. 10929-11204

DEFINITIONS OF ABBREVIATED TERMS

Com. Ex.	Securities and Exchange Commission Exhibit
El Paso Company	El Paso Electric Company (Texas)
El Paso Transportation	Transportation system of El Paso Electric Company (Texas)
Eng. Ex.	Engineers Public Service Company Exhibit
Gulf States Company	Gulf States Utilities Company
Gulf States Gas System	Gas system of Gulf States Utilities Company
Gulf States Water	Water system of Gulf States Utilities Company
Virginia Company	Virginia Electric and Power Company
Virginia Gas System	Gas system of Virginia Electric and Power Company
Virginia Transportation	Transportation system of Virginia Electric and Power Company

In the following excerpts parenthetical references are sometimes made to certain testimony and exhibits by page numbers with the letter "V" and the letter "G" in front of such numbers. Such references are to the pages of the transcripts of hearings and to the exhibits received in evi-

dence at hearings before the Securities and Exchange Commission on the applications of Virginia Electric and Power Company (as to the letter "V") and Gulf States Utilities Company (as to the letter "G") mentioned on page 541 of this volume of appendix. Various parenthetical references are also sometimes made to certain pages of "Eng. Ex. 63" and "Eng. Ex. 202." In each of the instances where such reference appears there has been inserted, in bold-face type in brackets, the number of the corresponding record page in the certified transcript of the record of the case under review. Other parenthetical references indicate the paging of the certified transcript and exhibits received in evidence at hearings before the Securities and Exchange Commission in the case under review. Such paging of the certified transcript is the same as that of the original reporters' transcripts.

* * * * *

[R. p. 10977] VIRGINIA TRANSPORTATION

REQUESTED FINDINGS OF FACT

1. The Virginia Company owns and operates a transportation system consisting of street railway and coordinated bus service in Richmond and Norfolk, bus service in Portsmouth and Petersburg, and interurban bus service between Richmond and Petersburg (435-440; Eng. Exs. 25, 27, 29, 31). The Virginia transportation system renders all public transportation service (other than taxicabs and vehicles for hire) in the four cities of Richmond, Norfolk, Petersburg and Portsmouth except for very minor independent operations to outlying rural districts (469, 527-528). The territory served by the Virginia Company's transportation system is entirely within the Company's electric service area (439). There is no other urban transportation system of any size within the Virginia Company's electric service area (527-528).

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VIRGINIA TRANSPORTATION (Cont'd)

2. Electric utility and public transportation properties have been jointly owned and operated in Richmond, Norfolk, Petersburg and Portsmouth since their origin, and the electric utility business in those four cities was preceded by and grew out of the operation of street railways as experimental, developmental and incidental thereto (220, 452-464; Eng. Exs. 2, 3, 3A, 4, 4A, 34). The Virginia Company has continuously rendered substantially all electric utility and urban transportation service in and between the cities of Richmond and Petersburg since 1909 and in the cities of Norfolk and Portsmouth since 1911. The Virginia Company was incorporated on June 29, 1909 as the Virginia Railway & Power Company for the purpose of acquiring at foreclosure sale the properties of Virginia Passenger and Power Company, Richmond Passenger and Power Company, and Richmond Traction Company (219-221; Eng. Exs. 1, 3, 3A, 34). Virginia Passenger and Power Company owned and operated street railway properties in Richmond and Petersburg and also some electric utility properties; Richmond Passenger and Power Company owned and operated street railway and electric utility properties in Richmond; and Richmond Traction Company owned and operated street railway properties in Richmond (Eng. Exs. 3, 3A, 34). The interurban service between Richmond and Petersburg was acquired as an [R. p. 10978] electric railway on November 30, 1909 from Richmond and Petersburg Electric Railway Company (219-220; Eng. Exs. 3, 3A, 34). As of July 1, 1911 the Virginia Company merged with Norfolk and Portsmouth Traction Company which owned and operated street railway and electric utility properties in Norfolk and Portsmouth and electric utility properties in Suffolk, and by such merger also acquired the leasehold interest in The Norfolk Railway and Light Company which owned and operated street railway and electric utility properties in Norfolk (222-223; Eng. Exs. 3, 3A, 34).

Excerpts from Requested Findings and Brief on Behalf of Respondents.

VIRGINIA TRANSPORTATION (Cont'd)

3. In January 1925 the Virginia Company's transportation system was entirely a street railway operation except for one trolley bus route in Petersburg (477; Eng. Exs. 24, 26, 28, 30, 37). Beginning in the year 1925 in Richmond and Norfolk and in the year 1926 in Portsmouth and Petersburg, the Virginia Company began with the consent of the proper City and State authorities the substitution of bus service for street railway lines whenever a heavy capital expenditure, such as the reconstruction of tracks or paving, became necessary for the continued operation of such a line (465-469). The Virginia Company has continued with the consent of the proper City and State authorities to substitute from time to time bus service for street railway lines in order to salvage and decrease its investment in transportation properties and to increase its return thereon (474, 605-606, 710; Eng. Exs. 35, 36). Bus service was substituted for all remaining street railway lines in Portsmouth on July 28, 1935 and in Petersburg on June 7, 1936 with the consent of the respective City Councils and the State Corporation Commission (468-469; Eng. Ex. 34). In 1936 bus service was substituted for the electric railway on the interurban line between Richmond and Petersburg, the State Corporation Commission requiring such substitution as a condition to abandonment of the electric railway (2218-2223). For many years City and State authorities have not allowed the Virginia Company to abandon a street railway line without first undertaking to substitute bus service (710-711). As of December 31, 1940, there were 53.60 and 47.58 street railway route miles in Richmond and Norfolk, respectively, and a total equivalent single track mileage of 132.38 miles, and 69.95 and 62.17 bus route miles in those two cities respectively (Eng. Ex. 38). As of December 31, 1940, there were 12.53 and 35.11 bus route miles in Petersburg and Portsmouth, respectively, and 44.90 bus route miles on the interurban line between Richmond and Petersburg (Eng.

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VIRGINIA TRANSPORTATION (Cont'd)

Ex. 38). As of the same date, the Virginia Company operated over these street railway and bus routes 271 street cars (172 in Richmond and 99 in Norfolk) and 330 buses (Eng. Ex. 38). As of December 31, 1940, the railway plant account was $10,251,529 and the bus plan account $3,309,431 (Eng. Ex. 9). The percentage of bus miles operated to total system miles operated gradually increased from 1925 to 1940 and was 11,744,377 miles or 59.8% of the 19,652,910 mile total in [R. p. 10979] 1940, making the 7,908,533 railway miles operated 40.2% of the total in 1940 (Eng. Exs. 35, 36). The percentage of bus passenger revenues to total system passenger revenues gradually increased from 1927 to 1940 and was $2,569,698 or 51.26% of the $5,013,514 total in 1940, making the $2,443,816 railway passenger revenues 48.74% of the total in 1940 (Eng. Ex. 40).

4. The Virginia Company's street railway and coordinated bus service in Richmond and Norfolk, bus service in Portsmouth and Petersburg, and interurban bus service between Richmond and Petersburg form a single transportation system and operation. In Richmond and Norfolk, respectively, street railway and bus service are thoroughly coordinated as to routes and universal transfers (440, 469). The interurban line between Richmond and Petersburg connects and coordinates urban transportation in those two cities (2108, 2126-2127). The Virginia Company's transportation properties are operated as one system under the supervision of a vice-president and a system manager of transportation (480, 485-486, 732-734; Eng. Ex. 202, App. A). There are the same operating conditions, wage and personnel policies, labor organization, and executive, accounting, automotive, claim, engineering, insurance, purchasing, safety, statistical, stenographic, stores, welfare and other employees for the transportation service in and between the four cities operating as one system (485-486,

VIRGINIA TRANSPORTATION (Cont'd)

732-734, 2126-2127; Eng. Ex. 202, App. A). There are 236 joint electric and transportation employees who work for the entire transportation system; 2 wholly transportation employees who work for the entire transportation system; 12 transportation employees who work for the Richmond Division, which includes Richmond, Petersburg and the interurban line; and 8 transportation employees who work for the Norfolk Division, which includes Norfolk and Portsmouth (Eng. Ex. 202, App. A). The general office building in Richmond and office furniture and equipment therein is a transportation system building to the extent it is used by the 238 employees who work for the entire transportation system (Eng. Ex. 202, pp. 24-25 **[R. pp. 7582-7583]**, 27 **[R. p. 7585]**). There are 67 employees, in addition to the above system and division employees, who work for both the street railway and bus divisions, 35 in Richmond and 32 in Norfolk (Eng. Ex. 202, App. A). There are thirteen buildings jointly used by the street railway and bus divisions in Richmond and Norfolk (Eng. Ex. 202, pp. 27-28 **[R. pp. 7585-7586]**).

5. The Virginia Company's transportation system is well operated in the public interest and in the interest of its consumers (446-452, 479-499, 732). The Virginia Company's 132.38 miles of equivalent single track, 271 electric railway passenger cars, 330 buses, and adequate and suitably equipped buildings for shops, barns, store rooms, etc., are in good and efficient operating condition (446-452, 478-479, 720-721; Eng. Exs. 32, 33). Well trained and capable employees operate this transportation equipment so that service is maintained at minimum cost (434, 485-488, 491). Service in each of the four cities is [R. p. 10980] thoroughly coordinated, responsible, dependable and well maintained (480-482, 484, 488-489, 577-580). Continuous studies are being made so that there are ever changing adjustments to

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VIRGINIA TRANSPORTATION (Cont'd)

fit the Virginia Company's transportation service to the needs and desires of the public (488). Fares charged on the Virginia Company's street cars and buses are reasonable and proper (495-496).

6. The electric utility plant account of the Company exceeded the transportation plant account for the first time in 1923, at which time the electric plant account was $23,808,110 and the transportation plant account $20,952,249, and the electric plant account has continued to grow year by year while the transportation plant account has substantially decreased (Eng. Ex. 5). As of December 31, 1940 the electric utility investment was $68,007,540 and the transportation (railway and bus) investment was $13,560,960, or only 20% of the electric utility plant account (Eng. Ex. 9). The electric utility gross operating revenues exceeded the transportation gross operating revenues for the first time in 1922, at which time the electric revenues were $5,074,272 and the transportation revenues were $4,438,823, and the electric revenues have continued to grow year by year while the transportation revenues have remained approximately the same (Eng. Ex. 6). In the year 1940 the electric utility gross operating revenues were $15,016,831 and the transportation gross operating revenues were $5,124,147, or 34% of the electric revenues (Eng. Ex. 202, p. 43 [R. p. 7601]). Reliable figures for electric and transportation system net income are not available prior to 1940 because until the present proceeding there has been no occasion to make a detailed study of the allocation of interdepartmental charges and expenses (856-858). The officers of the Virginia Company have regarded the Company as one joint business enterprise and have not considered it necessary to allocate anything but current out of pocket expenses which have been apportioned between departments in most instances on either a net revenue or time ticket basis (306-308). For

VIRGINIA TRANSPORTATION (Cont'd)

example, the officers of the Company in 1933 decided in their best judgment that the fairest method of allocating the salaries of joint employees between the electric and transportation systems and other departments of the Company was on a departmental net revenue basis (503-510, 630-639, 663-664, 842) but have not heretofore made any allocation of fixed charges on buildings and equipment or the cost of free transportation of employees and other interdepartmental services and expenses which are not items of current cash expenditures (945-952). During the course of the present proceeding a very detailed study has been made of the allocation of interdepartmental charges and expenses and the 1940 income statement adjusted to place the allocations on a fair and equitable basis (938-958, 2160-2161, 2192-2195, 3449-3453; Eng. Ex. 202). This study shows that for 1940 the electric net income was $3,982,839 and the transportation net income $24,862, or .62% of electric net income [R. p. 10981] (Eng. Ex. 202, p. 43 **[R. p. 7601]**). The Virginia Company furnishes electric service throughout an area of approximately 13,500 square miles in tidewater Virginia and the coastal plans of North Carolina, and serves at retail approximately 510 cities and towns having an estimated population of 832,000 people (1423-1424; Com. Ex. 29). The Virginia Company's transportation system is limited to the four major cities within the Company's electric service area, Richmond, Norfolk, Petersburg and Portsmouth, and the interurban line between Richmond and Petersburg (435-438; Eng. Exs. 25, 27, 29, 31).

7. The Virginia Company's transportation system is operated in conjunction with and supplemental to its electric utility system. Three company owned general office buildings at Richmond, Norfolk and Petersburg, having a book value of $974,000, $506,000 and $148,000, respectively (Eng. Ex. 20), and a fourth rented office building at Ports-

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VIRGINIA TRANSPORTATION (Cont'd)

mouth are jointly used by the electric and transportation systems (Eng. Ex. 202, pp. 24-26 **[R. pp. 7582-7584]**). Office furniture and equipment carried on the Company's books at $233,235 are jointly used by the electric and transportation systems (951-952; Eng. Exs. 20, 202, p. 27 **[R. p. 7585]**). The Virginia Company's storerooms in Richmond and Norfolk, having a book value of $173,954 and $12,875, respectively, including equipment (Eng. Ex. 20), are jointly used by the electric and transportation systems (545-547, 948; Eng. Ex. 202, pp. 28-29 **[R. pp. 7586-7587]**). A heating plant at Richmond, having a book value of $33,555 (Eng. Ex. 20), is jointly used by the electric and transportation systems (Eng. Ex. 202, p. 31 **[R. p. 7589]**). There are approximately 50 automobiles and trucks, having a book value of $43,498 (Eng. Ex. 20), and appurtenant garage and shop equipment, having a book value of $254,500 (Eng. Ex. 20), jointly used by the electric and transportation systems (Eng. Exs. 20, 202, pp. 29-30 **[R. pp. 7587-7588]**, 32-33 **[R. pp. 7590-7591]**). There are 5,944 poles, the book value of which is not presently available, jointly used by the electric system and the railway division of the transportation system (Eng. Ex. 202, pp. 34-35 **[R. pp. 7592-7593]**), and 254 jointly used manholes, having a book value of $97,536 (Eng. Ex. 202, pp. 35-36 **[R. pp. 7593-7594]**). There are six street railway rights-of-way, having a book value of $281,395 (Eng. Ex. 20), which are used by the electric system for its distribution lines (Eng. Ex. 202, pp. 36-37 **[R. pp. 7594-7595]**). The total book value of this jointly used equipment, exclusive of the Portsmouth general office building and the 5,944 jointly used poles is $2,758,548 (Eng. Exs. 20, 202). In 1940, 34,162,978 kwh of electric energy costing $218,164 were delivered by the electric system to the transportation system for the operation of street cars and for miscellaneous uses (760-765). Free transportation, valued

VIRGINIA TRANSPORTATION (Cont'd)

at $83,225 in 1940, is furnished by the transportation system to electric system employees (Eng. Ex. 202, pp. 18-21 **[R. pp. 7576-7579]**, 46 **[R. p. 7604]**). Free advertising, valued at $1,947 in 1940, is furnished by the transportation system to the electric system (Eng. Ex. 202, pp. 21-24 **[R. pp. 7579-7582]**, 46 **[R. p. 7604]**). As of December 31, 1940, the transportation [R. p. 10982] system had approximately 1702 employees (367-368; Eng. Ex. 202, App. A), 236, or 13.8%, of whom were joint employees who work for both the electric and transportation systems (Eng. Ex. 202, App. A). The following numbers and types of employees of the Virginia Company work for both the electric and transportation systems: 11 executive and general office, 31 general accounting, 13 payroll accounting, 3 tax accounting, 5 statistical, 15 purchasing, 2 insurance, 13 stenographic, 4 filing, 5 safety engineering, 14 construction accounting, 4 welfare, 23 claim, 17 telephone, 52 building, 11 mailing and messenger employees, 1 addressograph operator, and 1 multilith operator (Eng. Ex. 202, App. A). In addition there are 69 joint employees whose compensation is charged to stores and transportation clearing accounts which are in turn charged to both the electric and transportation systems (Eng. Ex. 202, p. 2 **[R. p. 7560]**). The electric and transportation systems have similar public relations problems (567-570, 3710-3712, 3815-3817) and the same employees' labor organization (629; Eng. Ex. 127), employees' benefit association, company magazine, and joint auditing, supervision, legal, telephone and miscellaenous expenses (Eng. Ex. 202, pp. 9-15 **[R. pp. 7567-7573]**).

8. In 1939, the Virignia Company began charging depreciation on its street railway properties at the rate of 6½% with a view to completely retiring such properties in 1956 (500-501, 615-616, 621-622). As of December 31, 1940, the book value of the Virginia Company's street rail-

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VIRGINIA TRANSPORTATION (Cont'd)

way properties was $10,251,529 (Eng. Ex. 9). The year 1940 was a normal business year for the transportation system (1066-1067; Eng. Exs. 6, 7, 39, 40). The $5,124,147 gross operating revenues and $1,425,575 net operating revenues before taxes and depreciation (Eng. Ex. 202, p. 44 [R. p. 7602]) of the Virginia Company's transportation system during the year 1940 represent a reasonable level for the next 15 years (1063-1067). For the next 15 years and until retirement of the street railway lines in 1956, cash requirements of the railway division of the Virginia Company's transportation system will not exceed $50,000 a year for replacements, and a total of $1,000,000 for removal of tracks and repaving upon retirement, or a total cash requirement for the 15 years of $1,750,000 (1058-1063, 1172-1174). The existing street railway lines in Richmond and Norfolk are in good condition and substantially all of them will remain in operation for the next 15 years until the expiration of the Richmond franchise in 1956 (608-609, 718-721, 1060, 2268-2269). At the end of the 15 year period and the expiration of the Richmond franchise in 1956, the tracks, cars and other street railway equipment will still be in as good condition and as efficiently operated as today, but will be retired and bus service substituted within a year thereafter (718-721, 2268-2269). City and State authorities have not expressed any opinion as to whether bus service should be substituted for existing street railway lines (609-610). The riding public will not benefit by an immediate change to all bus service (721). In some instances in Norfolk and Richmond, street railway operation is better adapted to the needs of the [R. p. 10983] community than bus service (475, 611). The cost of substituting bus service for present street railway lines in Richmond and Norfolk is approximately $2,500,000 for new equipment and $1,000,000 for removal of tracks and paving, or a total cost of approximately $3,500,000 (2240). The transportation system's plant

VIRGINIA TRANSPORTATION (Cont'd)

account on an original cost basis if it were converted to an all bus operation would be approximately $7,000,000 (702-703). The 1940 return on the Virginia Company's transportation system was .83% (2259-2261) and on its bus division was 4.82% (699-700, 2214-2217). If the Virginia Company's transportation system were converted to an all bus operation, the system would carry about the same number of passengers as are today being carried by both street cars and buses, have about the same gross revenues and earn about the same 4.82% rate of return on the total investment as was earned by the bus division in 1940 on the present bus investments (699-705, 2212-2217).

9. Joint operation of the Virginia Company's electric and transportation systems is of substantial benefit to both. Based on operations during 1940, joint operation of the Virginia Company's electric system with its transportation system permits the operation of the electric system at a saving of $249,208 a year (1067-1073, 2161-2190, 3959-3961; Eng. Ex. 228). If the present method of joint operation of the Virginia Company's electric and transportation systems were discontinued, the electric system's payroll would be increased as follows: $32,294 for executives; $21,331 for junior executives, supervisors and general office clerks; $3,952 for janitors, maids and building employees; and $9,310 for certain additional employees, or a total payroll increase of $66,887 (1069-1071, 2163-2167; Eng. Ex. 228, Schedule B), and there would be a further payroll increase of $108,550 a year to compensate employees of the electric system for their loss of free transportation (656, 659-662, 728-730, 751-752, 1068-1069, 2181-2190; Eng. Exs. 27, 228, Schedule A). If the Virginia Company were required to dispose of its transportation system, the electric system would have to assume pensions in the amount of $39,869 a year, payable to former transportation system employees

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VIRGINIA TRANSPORTATION (Cont'd)

of the Virginia Company (1071, 1271-1272; Eng. Ex. 228, Schedule C). If the present method of joint operation of the Virginia Company's electric and transportation systems were discontinued, the expenses of the electric system would be increased $18,953 a year; of which $11,620 would be for general office buildings, furniture and equipment, $1,780 for store rooms, garages and equipment, $4,592 for jointly used poles and rights-of-way, and $960 for jointly used manholes (1071-1072, 2172; Eng. Ex. 228, Schedule D). If the present method of joint operation of the Virginia Company's electric and transportation systems were discontinued, certain miscellaneous expenses of the electric system would be increased by $14,949 a year (1072; Eng. Ex. 228, Schedule E). There would be other increases not readily calculable in the expenses of the electric system if the present method of joint operation of the Virginia Company's electric and transportation systems were discontinued (1073). After all adjustments necessary to portray the transportation system's net income fairly and accurately, [R. p. 10984] the transportation system contributed to the Virginia Company during 1940, net income in the amount of $24,862 and gross income in the amount of $106,493 (Eng. Ex. 202, p. 43 **[R. p. 7601]**). Based on operations during 1940, the net annual increment cash contributed by the transportation system to the Virginia Company was $746,000,* computed by adding (1) the $106,000

* Mr. D. C. Barnes, admitted by Commission Counsel to be an expert electrical engineer and utility operator and a utility financial expert (2226-2228), computed the net annual increment cash from transportation operations to be $750,000 (Eng. Ex. 128). Mr. Barnes' calculation was based on a preliminary report (Eng. Ex. 63) by independent certified public accountants as to the 1940 revenues, expenses and financial status of the transportation system. The final report (Eng. Ex. 202) of these accountants made after Mr. Barnes had testified shows (1) the gross income of the transportation system for 1940 to be $106,000 instead of $113,000, and (2) the charges to the transportation system for joint personnel and facilities and interdepartmental services, which charges other witnesses demonstrated would have to be borne by the electric system if the transportation system were disposed of, to be $249,000 instead of $244,000. These two adjustments plus an increase in a Federal income tax

VIRGINIA TRANSPORTATION (Cont'd)

transportation system gross income, (2) the $583,000 accrual for railway depreciation minus the $50,000 annual cash requirement for replacements, and (3) the $249,000 increase in expenses of the electric system if operated independently of the transportation system less a Federal income tax saving of $46,000, and subtracting from the total of (1), (2) and (3) above, the noncash item of $96,000 included therein for transportation furnished company employees and advertising furnished other departments of the Company (2232-2234, Eng. Ex. 128). The $746,000 [R. p. 10985] increment cash realized by the Virginia Company from its transportation system in 1940 may fairly be expected for the next 15 years and if invested each year in the light and power business at 6% will provide a reserve sufficient to retire the $13,560,960 total book value of the Virginia Company's transportation system (both street railway and bus) at the end of 12.6 years (2244). The Virginia Company's transportation system, if independent of its electric system, could not operate as economically and efficiently as under present joint operation (628-629, 735). Ownership and operation of the transportation system does not affect the Viriginia Company's ability to borrow money for its electric system or the interest which it must pay for such money (288-289).

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saving from $44,000 to $46,000 explain the reduction in net increment cash from $750,000 to $746,000. Engineers Exhibit 202 also necessitated cash adjustments in other figures contained in Engineers Exhibit 128, which have been effected in the figures above set forth in the Respondents' Requested Findings of Fact, paragraphs 9 and 10.

Mr. Barnes readily agreed when his attention was called to the point on cross examination (3262-3263) that the net operating revenue before depreciation of the transportation department as set forth in the first line of Part II of Engineers Exhibit 128, should have included an additional amount of $40,000, representing pensions presently paid by the transportation department, which were to be assumed by the electric department at the time of the sale, and, therefore, would not be a charge against the purchaser in his operating expenses. To the figure of $931,000 for such net operating revenue (adjusted from $935,000 by Engineers Exhibit 202, (page 43 [R. p. 7601], as above indicated) must be added the $40,000 of pension expense, so that the corrected net operating revenue before depreciation to the purchaser would be $971,000. (See Exhibit A to this brief for adjusted Engineers Exhibit 128).

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Excerpts from Requested Findings and Brief on Behalf of Respondents.

VIRGINIA TRANSPORTATION (Cont'd)

10. Assuming the continued operation for the next 15 years of the present street railway lines of the Virginia Company's transportation system, the present worth of the transportation system to the Virginia Company is approximately $8,215,000 (2238-2239; Eng. Ex. 128; Ex. A to this brief). This is computed by adding the $7,245,000 present worth of a 15 year annuity of $746,000, the net annual increment cash realized by the Virginia Company from the transportation system invested to earn 6%, and the $970,000 present worth of a business for sale for $2,325,000 fifteen years hence (i. e. the amount which invested at 6% compound interest will equal $2,325,000 fifteen years hence) (2238-2239; Eng. Ex. 128; Ex. A to this brief). No one would purchase the street railway lines of the Virginia Company's transportation system for the purpose of operating them and any purchaser of the transportation system would convert it to an all-bus operation (1181-1182, 2122, 2272-2283). Assuming that the Virginia Company's transportation system were converted to an all-bus operation, it would have a market value of $5,825,000, which minus the $3,500,000 cost of converting the transportation system to an all-bus operation gives it a present market value of $2,325,000 (2239-2240, 2242-2243; Eng. Ex. 128; Ex. A to this brief). The estimated market value of $2,325,000 would be enhanced by a Federal income tax saving of approximately $778,000, thus giving the Virginia Company's transportation system an aggregate sales realization value of approximately $3,103,000 (2240-2243; Eng. Ex. 128; Ex. A to this brief).

11. The Virginia Company's electric system is well managed and efficiently operated (1419, 1457-1458, 1400-1458; Com. Exs. 18-55). The Virginia Company and the cities in which its transportation system operates enjoy definite advantages in regard to public relations and ren-

VIRGINIA TRANSPORTATION (Cont'd)

dering of satisfactory service from having one company render both electric and transportation service, and the officials of the four cities are opposed to having the electric and transportation systems separately operated (567-570, 1073-1075, 2130-2131; Norfolk Ex. 1; Portsmouth Ex. 1). The Virginia Company has since July 1, 1941 allocated interdepartmental charges and expenses fairly and equitably between the electric and transportation systems so that the books do now and will at all times in the future show the revenues, expenses and financial status of the electric and transportation systems independently of each other (938-958, 2160-2161, 2192-2195, 3449-3453; Eng. Exs. 63, [R. p. 10986] 124, 202). The State Corporation Commission of Virginia has for many years exercised complete jurisdiction over the Virginia Company's electric system and street railway division of its transportation system with respect to rates, extension or abandonment of service, adequacy of service, and other matters (446, 499). Bus service is regulated by ordinance of the city councils of the cities in which the buses operate (446, 465-469). The Virginia Company reports annually to the State Corporation Commission with respect to its electric and transportation (both railway and bus) systems (679-680). The State Corporation Commission of Virginia in fixing the rates of the electric system and of the street railway division of the transportation system has required each to stand on its own bottom independently of the other (499-500, 624-626).

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[R. p. 11014] VIRGINIA GAS SYSTEM

REQUESTED FINDINGS OF FACT

1. The Norfolk gas system was acquired by the Virginia Company in 1911 together with electric and transportation properties in Norfolk and Portsmouth but was

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VIRGINIA GAS SYSTEM (Cont'd)

corporately owned by City Gas Company of Norfolk and operated by the Virginia Company under a lease until 1930 when City Gas Company was merged with the Virginia Company (V. 49-52 **[R. pp. 4890-4893]**, V. 54 **[R. p. 4895]**; Eng. Exs. 1, 3, 3A, 4, 4A). The Virginia Company's Norfolk gas system consists of one gas manufacturing plant situated in the heart of the City of Norfolk (V. 30-31 **[R. pp. 4871-4872]**; V. Ex. 2 **[R. pp. 9833-9834]** and a distribution system emanating therefrom which as of December 31, 1940 consisted of 207.6 miles of high pressure mains and 149.5 miles of low pressure mains, or a total of 357.1 miles of mains (V. 114 **[R. p. 4958]**). The Virginia Company's Norfolk gas system is confined to an area of approximately 35 square miles comprising [R. p. 11015] the City of Norfolk and its suburbs (V. 172 **[R. p. 5016]**; V. Ex. 1 **[R. p. 9832]**). The book value of the plant and property of the Norfolk gas system has increased gradually since 1922, when it was $2,411,641, and as of December 31, 1940 was $6,051,038 (V. 163 **[R. p. 5007]**; V. Ex. 44 **[R. p. 9908]**; Com. V. Ex. 4 **[R. pp. 9828-9829]**), which figure includes an admitted $1,677,707 write-up in the book value of the gas property made in 1930 to conform the Virginia Company's books with an appraisal made by Forstall, Robison and Luqueer, and which write-up as of December 31, 1939 had been reduced by retirements of property to $1,562,611 (281-283; Com. V. Ex. 4 **[R. pp. 9828-9829]**). The Norfolk gas system's production has increased from 712,405 m.c.f. in 1921 to approximately 1,000,000 m.c.f. in 1939 and made a sharp rise in 1940 to 1,161,808 m.c.f. due to the recent defense activities in the Norfolk District (V. 118 **[R. p. 4962]**; V. Ex. 15 **[R. p. 9852]**). The average number of customers served each year by the Norfolk gas system has gradually increased from 15,724 in 1921 to 27,365 in 1940 (V. 147-148 **[R. pp. 4991-4992]**; V. Exs. 32 **[R. p. 9894]**, 38

VIRGINIA GAS SYSTEM (Cont'd)

[R. p. 9900]) and reached 28,370 customers on December 31, 1940 (V. 115 [R. p. 4959]). The gross operating revenues of the Norfolk gas system has remained relatively constant since 1921, when they were $908,689, and in 1940 were $1,054,987 (V. Exs. 10 [R. p. 9844], 16 [R. p. 9853]). It is apparent that the Norfolk gas system has enjoyed a reasonable net income each year but reliable figures for such net income are not available prior to 1940, during which year the net income of the gas system was $120,892 (Eng. Ex. 202, p. 43 [R. p. 7601]).

2. The Norfolk gas system is economically and efficiently operated with an enviable record of continuous improvement and modernization of its production, distribution and other facilities (V. 59-71 [R. pp. 4900-4912], V. 77-79 [R. pp. 4918-4920], V. 85-86 [R. pp. 4926-4927], V. 88-92 [R. pp. 4929-4933]) and is today in excellent condition (V. 79 [R. p. 4920], V. 92-93 [R. pp. 4933-4934], V. 116 [R. p. 4960]). Production fuel costs of the Norfolk gas system have been reduced 38% during the period from 1921 to 1940, inclusive, from 27.5¢ to 17¢ per m.c.f. (V. Ex. 14 [R. p. 9851]), and the net production cost per m.c.f has been reduced 53% during the same period from 57¢ to 26.6¢ (V. Ex. 15 [R. p. 9852]). The Norfolk gas system's average rate per m.c.f has been reduced from $1.45 in 1921 to $1.04 in 1940 (V. Ex. 37 [R. p. 9899]). Rate reductions made by the Norfolk gas system since 1926 save its customers, on the basis of use of gas at the time the reductions were made, approximately $264,720 a year (V. 142-143 [R. pp. 4986-4987]; V. Exs. 27-30 [R. pp. 9885-9892]). The Norfolk gas system's rates are substantially lower than the rates of the privately owned Portsmouth Gas Company and the municipal plant in Richmond, two gas systems in Virginia operating under most comparable conditions (V. 150-151 [R. pp. 4994-4995]; V. Ex. 35 [R. p. 9897]), for example, the monthly cost of 3,000 cu. ft.

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VIRGINIA GAS SYSTEM (Cont'd)

of gas, which represents the average consumption of a residential customer, is $3.55 for the Norfolk gas system, $3.90 for the Portsmouth gas system and $3.86 for the municipal plant in Richmond (V. 151-152 **[R. pp. 4995-5996]**; V. Exs. 36 **[R. p. 9898]**, 40 **[R. p. 9902]**). The Virginia Company has carried on progressive sales promotion activities of educating the public in the benefits that may be derived from the use of gas and modern economical gas appliances (V. 124-127 **[R. pp. 4968-4971]**; V. 132-136 **[R. pp. 4976-4980]**, V. 141-142 **[R. pp. 4985-4986]**; V. Exs. 19-26 **[R. pp. 9857-9884]**).

[R. p. 11016] 3. The Norfolk gas system is locally managed by the manager of the gas department and the vice-president of the Norfolk Division, both of whom are located at Norfolk, and the latter reports to the Company's operating vice-president at Richmond, who in turn reports to the Company's president at Richmond (Com. Ex. 37). The Norfolk gas system is operated in conjunction with the Virginia Company's electric and transportation systems and as a result of joint use of facilities and personnel substantial savings are realized (V. 32-33 **[R. p. 4873-4874]**, V. 39-40 **[R. p. 4880-4881]**, V. 97-98 **[R. p. 4938-4939]**). The following number and types of employees work jointly for the Norfolk gas system and the Virginia Company's electric and transportation systems: 22 executive and general office, 31 general accounting, 13 payroll accounting, 3 tax accounting, 5 statistical, 15 purchasing, 2 insurance, 13 stenographic, 4 filing, 5 safety engineering, 14 construction accounting, 4 welfare, 23 claim, 17 telephone, 52 building, 11 mailing and messenger employees, 1 addressograph operator and 1 multilith operator (Eng. Ex. 202, App. A.). In addition, the Virginia Company has 82 combination electric and gas employees engaged in customers accounting and collecting work which consists of supervision, customers

VIRGINIA GAS SYSTEM (Cont'd)

contracts and orders, meter reading, collecting, and customers billing and accounting (Eng. Ex. 202, p. 49 **[R. p. 7607]**; Com. Ex. 71), and 1 combination gas and electric stenographic employee (Eng. Ex. 202, p. 50 **[R. p. 7608]**). There are altogether 319 joint employees who work for the Norfolk gas system and other activities of the Virginia Company. The Norfolk gas system jointly uses with the Virginia Company's electric and transportation systems two general office buildings, one at Norfolk having a book value of $506,000 and one at Richmond having a book value of $974,000 (Eng. Exs. 20, 202, pp. 24-25 **[R. p. 7582-7583]**), and furniture and equipment in these buildings having a book value of $73,725 and $140,987, respectively (Eng. Exs. 20, 202, p. 27 **[R. p. 7585]**). The annual charge to the gas system for the use of these office buildings and equipment is $9,215 a year, on the basis of operations during 1940 which was a normal business year (Eng. Ex. 202, p. 46 **[R. p. 7604]**). The Virginia Company's store rooms in Richmond and Norfolk having a book value of $173,954 and $11,675, respectively, including equipment and the stores equipment at Petersburg having a book value of $1,200 (Eng. Ex. 20) are jointly used by the electric, transportation and gas systems (Eng. Ex. 202, pp. 28-29 **[R. p. 7586-7587]**). There are approximately 44 automobiles and trucks having a book value of $32,972 (Eng. Ex. 20) and appurtenant garage and shop equipment having a book value of $254,500 (Eng. Ex. 20) jointly used by Norfolk gas system and the Virginia Company's electric and transportation systems (Eng. Exs. 20, 202, pp. 29-30 **[R. p. 7587-7588]**, 32-33 **[R. p. 7590-7591]**). The Norfolk gas system utilizes one of the Virginia Company's transportation system's rights-of-way valued at $9,000 and having an annual rental value of $500 (Eng. Ex. 202, p. 37 **[R. p. 7595]**). The total book value of property jointly used by the Norfolk gas system and the Virginia Company's electric system is

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VIRGINIA GAS SYSTEM (Cont'd)

$2,178,013 (Eng. Ex. 20). Based on operations during 1940 which was a normal business year, the Virginia Company's electric system supplies the Norfolk gas system with 1,691,108 kwh of electric energy costing approximately $11,721 a year (Eng. Ex. 63, p. 6 **[R. p. 6629]**, Eng. Ex. 202, pp. 15-16 **[R. p. 7573-7574]**, 46 **[R. p. 7604]**, [R. p. 11017] and the transportation system furnishes the Norfolk gas system with free advertising in street cars and buses valued at $231 a year (Eng. Ex. 202, pp. 21-23 **[R. p. 7579-7581]**, 46 **[R. p. 7604]**) and provides its employees with free transportation valued at $11,318 a year (Eng. Ex. 202, pp. 18-21 **[R. p. 7576-7579]**, 46 **[R. p. 7604]**. Based on operations during 1940 which was a normal business year, the Norfolk gas system each year supplies the electric system with 8,558,600 m.c.f. of gas and the transportation system with 569,200 m.c.f. which gas costs approximately $2,962 and $1,028, respectively (Eng. Ex. 202, pp. 16-17 **[R. p. 7574-7575]**, 46 **[R. p. 7607]**). The Virginia Company's electric and gas systems have similar public relations problems, the same employees' labor organization (629; Eng. Ex. 127), employees' benefit association, company magazine, and joint auditing, supervision, legal, telephone, and other miscellaneous expenses (Eng. Ex. 202, pp. 9-15 **[R. p. 7567-7573]**.

4. Joint operation of the Norfolk gas system in combination with the Virginia Company produces a saving in operating expenses of $127,491 a year, which saving is wholly attributable to the combination but is fairly allocable between the Norfolk gas system and the Virginia Company in the amounts of $71,522* and $55,969, respectively (3889-

* The transcript (3889-3918) and Eng. Ex. 224 show an estimate of increased expenses to the gas department if operated separately of $75,130. One of the groups of expenses included in this figure was customers accounting and collection expenses, the increase in which was estimated at $22,200. Mr. Mitchell (4085) stated that there was probably an amount not in excess of $2,000 which might be chargeable against merchandise and jobbing business and

VIRGINIA GAS SYSTEM (Cont'd)

3918, 3997-3999; Eng. Ex. 224). The $71,522 portion of the annual saving which is allocable to the Norfolk gas system represents the increased cost of operating the gas system independently of the Virginia Company and is as follows: $18,592* for the increased cost of customers accounting and collecting expenses (3889-3893, 3901-3902, 4081-4086, 4114-4117; Eng. Ex. 221), $7,800 for the increased cost of sales promotion and advertising expense (3902-3905; Eng. Ex. 223, Schedule A), and $45,130 for the increased cost of administrative and general expenses (3905-3916; Eng. Ex. 223, Schedule B). The $18,592 increase each year in customers accounting and collecting expenses of the Norfolk gas system if operated independently of the Virginia Company would be as follows: $900 for supervision, $300 for customers contracts and orders, $3,700 [R. p. 11018] for meter reading, $7,200 for collecting, $10,100 for customers billing and accounting (3889-3893, 3901-3902; Eng. Ex. 221), less an adjustment of $2,000 for amounts included in this item and representing merchandising and jobbing costs (4081-4086) and less an adjustment of $1,608 in transportation expense (4114-4117). The $7,800 increase each year in sales promotion expenses of the Norfolk gas system if operated independently of the Virginia Company would be as follows: $4,500 for supervision, $800 for salaries and commissions and $2,500 for advertising (3902-3905; Eng. Ex. 223, Schedule A). The $45,130 increased cost of administrative and general expenses of the Norfolk gas system if operated independently of the Virginia Company would be as follows: $11,500 for salaries of general officers and

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which is included in the total figure on Exhibit 221. Therefore, this amount of $2,000 was deducted in the above calculation. In addition, Mr. Throckmorton (4114-4117) admitted that the estimate for increase in transportation expense in the amount of $2,400 was in error and it was developed that $792 was the proper estimate. Therefore, the difference between $2,400 and $792, or $1,608, was also deducted. The difference between $22,200 and the deduction of $3,608 is $18,592. Therefore, the $75,130 figure as adjusted should be $71,522.

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VIRGINIA GAS SYSTEM (Cont'd)

executives, $10,400 for salaries of other general office employees, $1,380 for expenses of general officers, $150 for expenses of general office employees, $24,000 for management and supervision fees, $300 for special services and $1,600 for legal services (3905-3912; Eng. Ex. 223, Schedule B); less the elimination of $1,400 in pension expense, $2,600 for free transportation furnished gas system employees, and $200 for rents (3913-3915; Eng. Ex. 223, Schedule B). The $55,969 portion of the annual savings from joint operation of the combination of the Norfolk gas system and the Virginia Company which is allocable to the Virginia Company represents the increased cost of operating the Virginia Company independently of the Norfolk gas system and is as follows: $8,067 for salaries of executives, $3,940 for salaries of junior executives, supervisors and general office clerks, $17,501 for salaries of customers accounting employees, $6,606 for salaries of sales employees, $2,897 for salaries of building employees, $2,550 for salaries of certain special employees designated in Schedule A-6 of Eng. Ex. 222, $1,071 for pensions payable to former employees of the Norfolk gas system, $9,215 for the expenses of general office buildings, furniture and equipment, $811 for the expenses of store rooms, garages and equipment, and $3,311 for certain miscellaneous expenses set forth in Schedule D to Eng. Ex. 222 (3893-3896; Eng. Ex. 222).

5. The Norfolk gas system is thoroughly and effectively regulated by the State Corporation Commission of Virginia which fixes the system's rates, has prescribed use of the Uniform System of Accounts and has full regulatory powers over rates, services, issuance of securities, line extensions, abandonments, transactions with affiliates, and other matters (V. 173 [R. p. 5017]; 499; Virginia Code of 1936 and 1940 Supp., Title 33, Chapter 146, sections 3774b-q, and Title 36, Chapters 160 and 160A).

Excerpts from Requested Findings and Brief on Behalf of Respondents.

VIRGINIA GAS SYSTEM (Cont'd)

6. The Virginia Company's electric system is well managed and efficiently operated (1419, 1457-1458, 1400-1458; Com. Exs. 18-55). The Virginia Company is locally managed and operated by J. G. Holtzclaw, President, M. C. Smith, T. N. Jones, Jr., R. J. Trockmorton and J. T. Chase, Vice Presidents, and various other [R. p. 11019] officers of the Company located within its electric service area, and by its thirteen directors ten of whom reside within the Company's electric service area (Com. Ex. 26). The Virginia Company's electric system is thoroughly and effectively regulated by the State Corporation Commission of Virginia and the North Carolina Utilities Commission, which Commissions fix the Company's rates and have full regulatory powers over rates, issuance of securities, line extensions, abandonments, transactions with affiliates and other matters (446, 499, 679-680; Virginia Code of 1936 and 1940 Supp., Title 33, Chapter 146, sections 3774b-q, and Title 36, Chapters 160 and 160A).

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[R. p. 11097] TRANSPORTATION (BATON ROUGE BUS COMPANY).

REQUESTED FINDINGS OF FACT.

1. Baton Rouge Bus Company owns and operates 3 principal and 3 additional bus routes (added since January 1, 1941), totaling about 14 miles of route, all within the city limits and suburbs of Baton Rouge, Louisiana, a city largely of an industrial character, with a population of about 70,000 and area of 15 square miles (G. 14-15 **[R. pp. 5319-5320]**, 1548-1549, 1559, 1582; Eng. Ex. 92). For the year 1940 the gross and net operating revenues of Baton Rouge Bus Company were $275,148 and $35,061 respectively and of the Gulf States Company were $10,733,468 and $3,689,244 respectively. The area served by the electric department of the

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Gulf States Company embraces 27,500 square miles and the population served is about 405,000. At December 31, 1940 the utility plant of the Baton Rouge Bus Company was $271,747 and of the Gulf States Company was $59,293,661 (Eng. Exs. 79, 98).

2. The present bus operation of the Baton Rouge Bus Company is an outgrowth and a continuation of a transportation service begun in 1890 and which was then a street railway system; such system was acquired in 1909 by a predecessor of the Gulf States Company in conjunction with the simultaneous acquisition of electric and gas utilities. The gradual substitution of buses for street cars, completed in 1936, was caused by the public's need of extensions of service and by the economic necessity of competing with privately owned automobiles; and the street car tracks and equipment have been completely charged off the Baton Rouge Bus Company's [R. p. 11098] books (1554-1557). The Baton Rouge Bus Company was organized in 1938 to own and operate the transportation properties because, when the properties of the Baton Rouge Electric Company, the former owner of the transportation properties, and the Louisiana Steam Generating Corporation were consolidated with those of the Gulf States Company, the latter's charter did not permit it to engage in the transportation business. Upon the organization of the Baton Rouge Bus Company, 2,000 shares of no par value capital stock were issued and all thereof sold to Engineers for $90 a share, or an aggregate of $180,000 (1559). Prior to the operation of buses, the street railway was operated under municipal franchises. Each abandonment of street railway service and substitution of bus service was pursuant to the consent of the City Council of Baton Rouge given by ordinance and the present bus service is operated under such ordinances (1557-1558).

Excerpts from Requested Findings and Brief on Behalf of Respondents.

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

3. The operation of the transportation system and the electric system have many problems in common, including understanding of the proper way to render public service to many people, the employment of personnel for public contact, accounting and tax matters, claims, insurance and maintenance of automotive equipment (1574-1576). There are 27 joint employees performing services for both the Baton Rouge Bus Company and the Gulf States Company, 17 being general accounting department employees and 10 being executive and supervisory employees. These 27 joint employees include the president, senior vice-president, vice-president and manager, treasurer, assistant treasurer, chief clerk and assistant chief clerk of the Baton Rouge Bus Company and certain employees in the accounting, claims, tax, construction accounting and insurance departments of the Gulf States Company (1565-1566, 1605; Eng. Ex. 97). The joint employees performing services for the Baton Rouge Bus Company and the Gulf States Company each receive a check semi-monthly from each such company for the services performed by them for such companies respectively (1604-1605). During the years 1939 and 1940 the pay-roll of the Baton Rouge Bus Company for employees used jointly with the Gulf States Company averaged $775 per month (1609) and of the total monthly salaries of the 27 joint employees during 1940, namely, $6,337.33, $974.33 or 15%, was paid by the Baton Rouge Bus Company and $5,363 or 85%, was paid by the Gulf States Company (1647). The main office of the Baton Rouge Bus Company is in the same building that houses the office of the Gulf States Company in Baton Rouge (1573) and the Baton Rouge Bus Company pays the Gulf States Company $75 per month for rent, light and heat, the amount of such payment being based upon an estimate, frequently reconsidered, but so far not requiring change, of the space necessary to house the two

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

top officers and necessary accounting force of a separate transportation organization (1606). The bus garage and equipment (1549-1550; Eng. Ex. 93); the regular inspection schedule (1551); the transportation equipment consisting of 32 buses, one automobile and one service truck (1551; Eng. Ex. 94); and the good operating condition of the transportation equipment (1552-1554; Eng. Ex. 95) are all in accordance with good bus transportation business practice and permit efficient bus transportation service and the bus system of the Baton Rouge Bus Company is efficiently operated (1574). [R. p. 11099] If the Baton Rouge Bus Company could no longer use the joint employees and facilities presently shared with the Gulf States Company, the Gulf States Company could not dispense with any of these joint employees or make any other savings or get along with less office space or facilities (1609-1611, 1657-1660). The salaries of the joint employees aggregate $974 per month, as increased April 1, 1941 (Com. Ex. 56) and this amount, plus the $75 per month now received by the Gulf States Company from the Baton Rouge Bus Company for rent of office space, aggregates $1,050 per month, or $12,600 per year. This amount now is being borne by the Baton Rouge Bus Company and would be additional cost to the Gulf States Company if the transportation business were no longer operated jointly with the Gulf States Company. This is true because the Gulf States Company could not operate with less employees or less office space if the transportation business were independently operated (1611). If the joint operation of the Baton Rouge Bus Company with Gulf States Company were discontinued the additional cost to the Baton Rouge Bus Company to replace the present joint employees would be $525 per month, or $6,300 per year (1611-1612; Eng. Ex. 99).

Excerpts from Requested Findings and Brief on Behalf of Respondents.

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

4. In 1935 a proposed sale of the transportation business for $40,000 was blocked by the Council of the City of Baton Rouge because they believed that no one else could operate a transportation system more efficiently than it was being operated by the predecessor of the Gulf States Company (at that time under the same management as the Gulf States Company itself) or could offer Baton Rouge any improved service (1560-1562, 1584-1585; Eng. Ex. 96). The reason why the predecessor of the Gulf States Company was willing to sell the transportation business in 1935 was that it was then unprofitable (1579, 1583). During 1935 the total net operating revenue of the transportation business before depreciation, interest and amortization was $7,851. The net operating revenue of the transportation business before depreciation, interest and amortization was $43,552 in 1936 and $54,453 in 1937 (1803-1805). The Baton Rouge Bus Company is now operating at a profit (1579, 1582-1583), the balance of income remaining for capital stock and surplus, after operating expenses, taxes, maintenance, depreciation and interest, for the year 1940 being $34,938 (Eng. Ex. 98).

5. The Baton Rouge Bus Company enjoys excellent public relations (1566) and the operation of the bus system of the Baton Rouge Bus Company in conjunction with the Gulf States Company results in much better satisfaction to the public than would be obtained if the bus system were operated separately (1585). In 1930 when the population of the area served by the transportation system was 45,000, the transportation system transported 3,000,156 passengers. In 1940 when the population of the area served by the transportation system of the Baton Rouge Bus Company was 70,000, 5,542,556 passengers were carried. Thus during the past ten years, the increase in population was 55.5% while the increase in passengers carried was 84.7% (1566-

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

1567). Peak headways throughout the principal lines of the Baton Rouge Company transportation system are 5 to 8¼ minutes; as of December 31, 1940, 88% of the equipment in use had an average age of only 31 months; the fare is 5¢ for the greater portion of the lines operated and school children are carried at ⅗ths of the regular fare (1567).

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[R. p. 11111] GULF STATES WATER.

REQUESTED FINDINGS OF FACT.

1. In the expansion of its electric business through the purchase of properties, the Gulf States Company had to acquire water properties, since the equipment and facilities for both electric and water operations were located in the same buildings or adjacent thereto on the same properties (1692). The Gulf States Company owns and operates water businesses in Calvert, Franklin, Navasota and Orange, in Texas, and Denham Springs and Lake Charles in Louisiana, and leases and operates a water system in Carencro, Louisiana. The population served in these communities totals about 44,000 (1693). The water property at Calvert, Texas, has a daily pumping capacity of 3,600 thousand [R. p. 11112] gallons and as of December 31, 1940 had 365 customers out of a population of 2,500. This property was acquired by the Gulf States Company together with electric and ice properties in 1929 and these water, electric and ice properties had been operated jointly since before the beginning of the century (1694, 1695; Eng. Ex. 100). The water property at Franklin, Texas, has a daily pumping capacity of 576 thousand gallons and as of December 31, 1940 had 272 customers out of a population of 1,100. This property was acquired by a predecessor of the Gulf States Company in 1923 from the City of Franklin pursu-

GULF STATES WATER (Cont'd)

ant to an agreement calling for the furnishing by the purchaser of satisfactory electric and water service to the people of Franklin and was acquired by the Gulf States Company in 1929 together with electric and ice properties (1694, 1695-1696; Eng. Ex. 100). The water property at Navasota, Texas, has a daily pumping capacity of 1,728 thousand gallons and as of December 31, 1940 had 803 customers out of a population of 6,300. This property was acquired by the Gulf States Company together with electric and ice properties in 1929 and these water, electric and ice properties had been operated jointly since 1915. In 1937 the City of Navasota was unwilling to acquire and operate the water property (1694, 1696-1697; Eng. Ex. 100). The water property at Orange, Texas, has a daily pumping capacity of 5,328 thousand gallons and as of December 31, 1940 had 1,696 customers out of a population of 9,500. This property was acquired by the Gulf States Company together with electric and ice properties in 1925 and these water, electric and ice properties had been operated jointly since 1907 (1694, 1697-1698; Eng. Ex. 100). The water property at Lake Charles, Louisiana, has a daily pumping capacity of 11,640 thousand gallons and as of December 31, 1940 had 4,312 customers out of a population of 23,000. This property was acquired by the Gulf States Company together with electric, gas and ice properties in 1926, at which time one of the requirements in securing a franchise was a requirement that the water system would be rehabilitated (1694-1695, 1698; Eng. Ex. 100). The water property at Denham Springs, Louisiana, has a daily pumping capacity of 209 thousand gallons and as of December 31, 1940 had 159 customers out of a population of 1,200. This property was acquired by the Gulf States Company together with electric, gas and ice properties in 1938 from a predecessor company which had acquired it in 1929 (1695,

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GULF STATES WATER (Cont'd)

1699; Eng. Ex. 100). The water property at Carencro, Louisiana, has a daily pumping capacity of 432 thousand gallons and as of December 31, 1940 had 152 customers out of a population of 850. The lease covering the operation of this property, which property is owned by the Village of Carencro, was acquired by the Gulf States Company together with electric property in 1926 (1695, 1698-1699; Eng. Ex. 100). Four of the seven water properties presently operated by the Gulf States Company, namely, the properties at Franklin, Navasota, Orange and Carencro, were previously operated by municipalities which desired the water systems to be operated by a utility in order to secure a better water service than they were able to furnish (1699). At Conroe, Texas, the [R. p. 11113] Gulf States Company owns the wells and supplies power for the operation of the pumps which are owned by the City (1704). The miles of mains owned and operated by the Gulf States Company total 119 and are located as follows: Calvert 7 miles, Denham Springs 2 miles, Franklin 7 miles, Lake Charles 57 miles, Navasota 14 miles and Orange 32 miles (1704). The Gulf States Company has made improvements in the water systems in each community in which it now operates water properties (1721). The Gulf States Company carries on an electric business in all of the communities in which its water business is carried on.

2. The Lake Charles water property is the largest operated by the Gulf States Company (1702); since the Gulf States Company acquired this property in 1926 the population of Lake Charles has increased 50% and the water system has been enlarged to a greater extent (1708; Eng. Exs. 101, 102); in 1925 there were less than 2,000 water customers in Lake Charles, whereas on December 31, 1940 there were about 4,300 customers (1713; Eng. Ex. 103); in 1925 there was about $230,000 invested in the Lake Charles

GULF STATES WATER (Cont'd)

water system, whereas at December 31, 1940 the investment was about $830,000 (1713; Eng. Ex. 103); and many improvements have been made in the Lake Charles water system (1713-1720; Eng. Exs. 104, 105).

3. The operations of the water systems are carried on under franchises from the respective cities and municipalities, which franchises expire as follows: Calvert—1962, Franklin—1973, Navasota—1957, Orange—1947, Denham Springs—1953 and Lake Charles—1949. The operation of the water system at Carencro is carried on under a franchise and lease both expiring in 1950 and which require the Gulf States Company to maintain its electric service there (1700-1701; Eng. Ex. 107). In each community in which the Gulf States Company operates a water system the capacity available, including pumps, reservoirs and mains, is more than adequate to supply the normal requirements of the community and there is additional capacity for fire protection purposes (1704).

4. Water operations are under the supervision of the production department of the Gulf States Company which is responsible for all electric, water and ice production facilities of the Company. In Calvert, Navasota and Orange, where electric, ice and water facilities are located, the plant personnel performs duties for all three operations; and in Franklin, Carencro and Denham Springs service men and other employees of the electric department operate the water properties. At Lake Charles the water property is operated by employees devoting most of their time to that work (1704-1705). Accounting, claim and safety work and general supervision of the water properties are handled by the same organization which perform like duties for other departments (1705). Many economies can be obtained through joint operation of water and electric facilities (1774); electric and water operations are

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GULF STATES WATER (Cont'd)

similar in matters of meter reading, billing and collecting and such things as these [R. p. 11114] factors make joint operation desirable in order that joint facilities and joint employees may be used (1775); the same men that analyze water in the boilers of electric power plants also test water for drinking purposes in the same laboratories (1775); and electric and water operations have many problems in common, including those of public relations and water purification and supply (1776-1779). The Gulf States Company's water properties are subject to inspection by the State Health Department of Texas or of Louisiana and by local health authorities, and the small communities receive the benefit of the services of trained technical men located in the larger plants of the Gulf States Company in handling purification and chlorination (1708).

5. At Orange, the water production plant is located on the same property with the electric power station and ice plant, and in the principal structure are located the electric production equipment, the ice plant and part of the water pumping facilities (1706, 1737-1738; Com. Ex. 58, Eng. Ex. 109). It would not be feasible to have the property on which the water wells are located at Orange owned separately from the electric property there (1740-1741). At Navasota, the division offices of the Company, the ice plant and the water production facilities are located in the principal plant structure which is used jointly by the electric, water and ice departments (1706, 1739; Com. Ex. 59, Eng. Ex. 115). At Calvert, the principal plant structure is used jointly by the electric, ice and water departments and the largest building houses the steam boiler and steam generating equipment, the ice plant and some of the water pumping facilities. The water wells and standpipe are in the yard, as is the office building servicing the Calvert district (1739; Com. Ex. 60, Eng. Ex. 113). At Lake Charles,

GULF STATES WATER (Cont'd)

the electric facilities serving that division and the water properties are located on the same piece of property (1742-1743; Com. Ex. 57). If the water pumping and production facilities at Calvert, Navasota, Orange and, to a great extent, at Lake Charles, were separated from the electric facilities of the Gulf States Company, the water machinery would have little more than secondhand or scrap value because the water and electrical machinery is so intermingled that the water business could not be operated at those locations as a separate business without removal (1722, 1743-1746).

6. The water business generally is a profitable business (1731); and the balance available in the water department of the Gulf States Company for the year 1940 before interest and amortization, after giving effect to the re-allocation of expenses between departments of the Gulf States Company recommended by Mr. Faber, Treasurer of the Gulf States Company, was $49,715.21, and after interest and amortization was $14,686.59 (1969; Eng. Ex. 119). The balance available for the remainder of the Gulf States Company (after eliminating the water department) for the year 1940 before interest and amortization, after giving effect to the re-allocation of expenses between departments of the Gulf States Company recommended by Mr. Faber was $3,656,514.30, and after interest and amortization was $2,411,647.74 (Eng. Ex. 119). The gross operating revenues of the water department and of the remainder of the Gulf States Company (after eliminating the water department) for the year 1940 were $235,375.40 and $10,498,092.37 respectively (Eng. Ex. 119).

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Excerpts from Requested Findings and Brief on Behalf of Respondents.

[R. p. 11129] GULF STATES GAS SYSTEM

REQUESTED FINDINGS OF FACT.

1. The Gulf States Company distributes natural gas purchased from Interstate Natural Gas Company, Inc. to residential, commercial and industrial customers in Baton Rouge, Louisiana and adjacent suburbs (G. 9 **[R. p. 5314]**; G. Ex. 2). The electric utility system of the Gulf States Company operates in the States of Texas and Louisiana (G. 77 **[R. p. 5384]**). The service area of the gas utility system of the Gulf States Company is wholly within the service area of the electric utility system of the Gulf States Company (G. 9 **[R. p. 5314]**; G. Ex. 2 **[R. p. 10080]**, Eng. Exs. 64, 66). The area served by the gas system of the Gulf States Company is 15 square miles and has a population of 70,000 (G. 14-15 **[R. p. 5319-5320]**), and the area served by the electric system of the Gulf States Company is 27,500 square miles and has a population of 405,000 (Eng. Ex. 79). The gas system of the Gulf States Company had as of January 1, 1941 12,542 gas customers (G. 17 **[R. p. 5322]**), and the Gulf States Company had 92,132 electric customers as of December 31, 1940 (Eng. Ex. 79). All of the customers of the Gulf States Company's gas system are also customers of that Company's electric system (3936; Eng. Ex. 226). The Gulf States Company's gas distribution system at December 31, 1940 consisted of about 169 miles of main, 52 miles being low pressure system mains and 117 being intermediate pressure system mains (G. 31 **[R. p. 5336]**). As of December 31, 1940, the Gulf States Company's gas system had 11,926 service lines from street mains to customers (G. 32 **[R. p. 5337]**). The Gulf States Company's gas system has on hand, either in service or in the shop for repair, about 14,359 meters (G. 33 **[R. p. 5338]**). The gross revenue for the year 1940 was $719,926 for the gas system of the Gulf States Company, and $10,840,399 for the remainder of the Gulf States Company (G. Ex. 9 **[R. p.**

GULF STATES GAS SYSTEM (Cont'd)

10123]). The balance of income remaining before interest and amortization for the year 1940, as adjusted to reflect the suggested method of allocation of Mr. Faber, Treasurer of the Gulf States Company (1962-1968), was $162,998 for the gas system of the Gulf States Company, and $3,542,231 for the remainder of the Gulf States Company (Eng. Ex. 119). The utility plant account as of December 31, 1940 was $1,676,152 for the gas system of the Gulf States Company, and $57,768,257 for the remainder of the Gulf States Company (G. Ex. 12 **[R. p. 10127]**).

2. The contract for the purchase of gas, as amended, between the Gulf States Company and Interstate Natural Gas Company, Inc., was negotiated by the Gulf States Company to insure an adequate and dependable supply of gas at the lowest rates obtainable under competitive conditions (G. 20-21 **[R. p. 5325-5326]**; G. Ex. 3 **[R. p. 10081-10099]**). When in 1938 natural gas was discovered in the area served by the gas system of the Gulf States [R. p. 11130] Company in Baton Rouge, the Gulf States Company made a thorough investigation of the field with a view to developing its own supply of gas directly therefrom. After this investigation, the Gulf States Company decided, because of certain facts affecting the amount of gas reserve in the field, not to attempt to produce its own gas supply, but to supplement its gas purchase contract with Interstate Natural Gas Company, Inc. (G. 21-25 **[R. p. 5326-5330]**). In so doing, the Gulf States Company effected a saving in the purchase price of its gas supply amounting to about 16% of its annual gross revenue from the sale of gas. This saving is being passed on by the Gulf States Company to its gas consumers (G. 26-27 **[R. p. 5331-5332]**).

3. As a result of several years of study and experience on the part of the employees of the gas system of the Gulf States Company, the testing and repairing of meters, with-

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GULF STATES GAS SYSTEM (Cont'd)

out affecting their accuracy, have been improved by the elimination of one periodic test which has resulted in substantial savings in repairs and has materially reduced the cost of removing and resetting meters. Due to this improvement, the average cost per meter through shop test and repair has been reduced from $3.24 in 1935 to $2.30 in 1940 (G. 46 **[R. p. 5353]**). The Gulf States Company's gas system renders twenty-four hour service on trouble calls (G. 47 **[R. p. 5354]**). The Gulf States Company's gas system maintains a regular system for inspection of equipment and unsatisfactory conditions are immediately eliminated (G. 53 **[R. p. 5360]**). Unaccounted for gas, which is the difference betwen the gas purchased and the gas sold and used by the Gulf States Company, and in which leakage is by far the most important factor, has been reduced in the Gulf States Company's gas system from 11.5% in 1938 to 7.6% in 1939, and to 4.6% in 1940 (G. 51-52 **[R. p. 5358-5359]**). The Gulf States Company's gas system has an excellent safety record achieved through a well-balanced safety program and cooperation between management and employees. From the beginning of 1937 to April 1, 1941, gas system employees had worked 1,605 days without a lost time accident (G. 69-70 **[R. p. 5376-5377]**). In order to keep abreast of modern methods of operation and advancement of the industry, the Gulf States Company maintains memberships in various associations and employees of its gas system attend conventions and congresses and take courses (G. 53-54 **[R. p. 5360-5361]**).

4. The Gulf States Company's gas rate schedule in effect April 16, 1941 (G. Ex. 6 **[R. p. 10112-10115]**) is on file with and has been approved by the Louisiana Department of Public Service (G. 74 **[R. p. 5381]**). The Gulf States Company in Louisiana is subject to a law giving the Department of Public Service jurisdiction over rates and services

GULF STATES GAS SYSTEM (Cont'd)

of public utility companies and this jurisdiction applies to gas rates and services (G. 88-89 **[R. p. 5395-5396]**).

[R. p. 11131] 5. Of the 8 directors of the Gulf States Company in office in May, 1941, three are residents of Baton Rouge, Louisiana (1390-1393). The Gulf States Company maintains, with offices at Baton Rouge, Louisiana, a Vice-President, an Assistant Treasurer, an Assistant Secretary, and a Sales Manager, who supervise both the electric operations in the State of Louisiana and the gas operations in Baton Rouge (1374-1375; Eng. Ex. 72). The Gulf States Company's gas system has an average of 76 full-time employees, excluding joint employees, who are under the supervision of the Gas Superintendent, and are divided into four groups, namely, the Engineering Department, the Meter Laboratory, the Service Department and the Construction & Maintenance Department (G. 43 **[R. p. 5350]**).

6. The gas system is operated jointly with the electric system of the Gulf States Company. There are 200 joint employees other than executives doing work for the gas system and the remainder of the Gulf States Company of which 45 are engaged in customers' accounting and collecting; 30 in new business and sales activities, and 125 in accounting and general activities (3944; Eng. Ex. 227). There is also joint use of facilities by the gas system and the electric system of the Gulf States Company. The gas system and the remainder of the Gulf States Company jointly use the general office building and a service building both located in Baton Rouge. In the service building are housed the operating department heads, including the operating head of the gas department, the engineering offices and meter testing departments in which work is done for both the electric and gas departments, and the gas laboratory. There is a joint use of a pool of automobiles by the executives of the accounting and sales departments, serving both

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GULF STATES GAS SYSTEM (Cont'd)

the gas and electric departments. In emergencies, gas and electric automotive equipment are used by either the electric or the gas department in which the emergency exists. The service building is also used for the storing of material and supplies for both the electric and the gas departments. A lot adjacent to the service building is used for storing and servicing automobiles used in the operation of both the gas and electric departments (G. 34 **[R. p. 5339]**, G. 35 **[R. p. 5340]**, G. 75 **[R. p. 5382]**,). The economies presently realized from the operation of the gas system as a part of the Gulf States Company, and which would be lost if the gas system were operated independently, aggregate $7,873 per month, of which $3,502 per month is allocable to the gas system and $4,371 per month is allocable to the remainder of the Gulf States Company (3942; Eng. Ex. 227). Said $7,873 per month is composed of: $1,741 per month for executive salaries and supervisory services, of which $609 per month is allocable to the gas system and $1,132 per month is allocable to the remainder of the Gulf States Company (3943-3944; Eng. Ex. 227); $3,140 per month for payroll (excluding executive), of which $1,200 per month is allocable to the gas system and $1,940 per month is allocable to the remainder of the Gulf States Company (3944-3950; Eng. Ex. 227); $592 per month for rents, of which $394 per month is allocable to the gas system and $198 per month is allocable to the remainder of the Gulf States Company (3951; Eng. Ex. 227); [R. p. 11132] $930 per month for charges on owned buildings and equipment, of which $525 per month is allocable to the gas system and $405 per month is allocable to the remainder of the Gulf States Company (3951-3952; Eng. Ex. 227); $125 per month for maintenance expense on structures and equipment, of which $12 per month is allocable to the gas system and $113 per month is allocable to the remainder of the Gulf States Company

GULF STATES GAS SYSTEM (Cont'd)

(3952; Eng. Ex. 227); $220 per month for taxes, of which $122 per month is allocable to the gas system and $98 per month is allocable to the remainder of the Gulf States Company (3952; Eng. Ex. 227); $204 per month for transportation, of which $29 per month is allocable to the gas system and $175 per month is allocable to the remainder of the Gulf States Company (3953; Eng. Ex. 227); $170 per month for advertising, of which $98 per month is allocable to the gas system and $72 per month is allocable to the remainder of the Gulf States Company (3953-3954; Eng. Ex. 227); $83 per month for donations, of which $72 per month is allocable to the gas system and $11 per month is allocable to the remainder of the Gulf States Company (3954-3955; Eng. Ex. 227); $167 per month for legal expenses, of which $79 per month is allocable to the gas system and $88 per month is allocable to the remainder of the Gulf States Company (3955; Eng. Ex. 227); $354 per month for postage, of which $159 per month is allocable to the gas system and $195 per month is allocable to the remainder of the Gulf States Company (3955; Eng. Ex. 227); $41 per month for other office supplies and expenses, all of which is allocable to the gas system (3956; Eng. Ex. 227); $108 per month for electric service allocable to the gas system, which is offset by an expense to the remainder of the Gulf States Company in the same amount (3956; Eng. Ex. 22*); $35 per month for gas service allocable to the remainder of the Gulf States Company, which is offset by an expense to the gas system in the same amount (3956-3957; Eng. Ex. 227); $106 per month for telephone service, of which $89 per month is allocable to the gas system and $17 per month is allocable to the remainder of the Gulf States Company (3957; Eng. Ex. 227). Accordingly, the economies presently realized from the operation of the gas system as a part of the Gulf States Company, and

* Should be Eng. Ex. 227.

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GULF STATES GAS SYSTEM (Cont'd)

which would be lost if the gas system were operated independently, being $7,873 per month, aggregate $94,476 per year, of which $42,024 per year is allocable to the gas system and $52,452 per year is allocable to the remainder of the Gulf States Company (3942; Eng. Ex. 227). In addition to the economies set forth above, there are a number of economies presently realized from the operation of the gas system as a part of the Gulf States Company, and which would be lost if the gas system were operated independently, and such additional economies arising, for example, in connection with insurance, employees' welfare, employees' expense account, automobile parking space and the cost of money might amount to a considerable sum (3957-3958); and no economies would be realized if the gas system were operated independently instead of as a part of the Gulf States Company (3958).

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[R. p. 11166] EL PASO TRANSPORTATION.

REQUESTED FINDINGS OF FACT.

1. The transportation business of the El Paso System consists of a coordinated electric street railway and bus transportation system in the City of El Paso, Texas, an electric street railway system in Juarez, Mexico, and two international toll bridges across the Rio Grande between El Paso and Juarez. The transportation system in El Paso is owned and operated by the El Paso Company and connects with the transportation system in Juarez, which is owned by the El Paso and Juarez Company and operated by the El Paso Company under a contract between the two companies. The American parts of the two international toll bridges are owned and operated by the El Paso Company and the Mexican parts are owned by the El Paso and Juarez

Excerpts from Requested Findings and Brief on Behalf of Respondents.

EL PASO TRANSPORTATION (Cont'd)

Company and operated under a contract by the El Paso Company (2433-2434, 2442; Eng. Ex. 129).

2. The El Paso Electric Railway Company was incorporated in Texas in 1901 to construct, acquire, maintain and operate street and suburban railways in and near El Paso for transporting passengers. The charter was amended in 1905 to include supplying and selling electric light and power to the public and municipalities, so long as the company used electricity as the motive power for the operation of its lines, and to acquire and provide the necessary appliances. In 1925 the company's name was changed to El Paso Electric Company. In 1934 an amendment to its charter gave the company power to acquire, maintain and operate motor buses to carry passengers for hire within, or within five miles of, the corporate limits of cities or towns and removed the restriction that it could only sell electric light and power so long as it used electricity as the motive power for the operation of its lines (2452-2453). In 1902 the El Paso Company acquired the street railway properties then being operated in El Paso and the American parts of two international toll bridges, and the El Paso and Juarez Company continued the street railway operations in Mexico (2997-2999; Eng. Ex. 178). Between 1902 and 1905 the El Paso Company replaced the mule car system with an electric railway system which expanded rapidly until 1925 (2999-3002; Eng. Exs. 179, 180). The two international toll bridges of the El Paso System between El Paso and Juarez were originally built in 1882 and 1889, respectively, primarily for street car use and were rebuilt in 1925 and 1930 respectively. These bridges were constructed and are operated under certain Acts of Congress (3011-3012; [R. p. 11167] Eng. Exs. 184, 134). The investment in these bridges is carried in railway plant account (3013). Transportation operations of the El Paso System began before 1900 and the

EL PASO TRANSPORTATION (Cont'd)

electric business did not begin until 1905. It was not until 1915 that electric revenue first exceeded transportation revenue and transportation revenue again exceeded electric revenue in 1919 and 1920. It was not until after 1920 that electric operations emerged as the more important phase of total system operations (3025-3026; Eng. Ex. 186). All of the rolling stock used on the El Paso and Juarez Company's lines is in the property account of the El Paso Company (3033). All of the capital stock of the El Paso and Juarez Company and all of the common stock of the El Paso Company is owned by the El Paso (Delaware) Company (2425).

3. Just prior to 1925 and in the succeeding years competition of private automobiles required changes in the method of operation and style of equipment of the El Paso System's transportation system (3002-3003). A number of bus routes were substituted for street car routes and each change in routing where buses were substituted for street cars was pursuant to a resolution or ordinance of the city authorities of El Paso (3004-3006; Eng. Ex. 181). The El Paso System began using buses in 1926 to expand and develop districts and to avoid further investment in track construction. These bus routes were new and not in substitution for existing service. The first conversion of existing car lines to bus took place in 1930, followed by important conversions in 1935 and subsequent years to avoid heavy expenditures for track maintenance. These substitutions of buses found public favor (3013-3015, 3026-3027). The El Paso System operated on January 1, 1940 approximately 33 miles of bus route and 18 miles of railway. The number of miles of track reached its peak in 1920, when about 64 miles were operated, and has decreased each year since then and the miles of bus route have increased from their beginning in 1926 to the point where they now exceed the miles of rail-

EL PASO TRANSPORTATION (Cont'd)

way route (3006-3007, 3026-3027; Eng. Ex. 182). The El Paso System operates 34 street cars and 47 buses. The number of street cars reached its peak in 1920, when about 104 were in use and thereafter decreased each year to about 24 in 1940, when 10 additional secondhand cars had to be acquired to handle the increased transportation requirements due to national defense (3008-3009; Eng. Ex. 183).

4. The operation and abandonment of street railways and buses are subject to the jurisdiction of the City Council of El Paso; operations are carried on under franchises granted by that body and abandonments of street railway tracks and substitutions of buses and operation of buses over new routes have only been undertaken pursuant to ordinances giving permission to do so (3024-3025). Where bus service has been substituted for street car service, the removal of tracks and repair of streets has been carried out in a manner satis- [R. p. 11168] factory to the Mayor and City Council of El Paso (3018-3020; Eng. Ex. 134). In 1928 a modern bus garage was built and it is well equipped for all kinds of maintenance and repair work, which permits the El Paso System to keep a minimum of spare parts and enables it to operate its buses at a high average of approximately 50,000 miles per unit per year. The bus maintenance garage, storage space and service equipment are so located and arranged that bus and street car maintenance work is readily coordinated, and from the underground gasoline tanks the electric system is supplied with gasoline for its automotive equipment (3015-3016; Eng. Ex. 134). Street car and bus fares generally in and around El Paso are six cents with universal transfer between all routes and types of equipment. School fares are one-half of the regular fare. In Juarez the fare is 12 centavos or approximately two and one-half cents (3009-3010). During the twenty-year period beginning in 1920, the annual number of passengers carried

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EL PASO TRANSPORTATION (Cont'd)

on the transportation system of the El Paso System dropped 50% and the annual vehicular miles operated dropped 72%; whereas the total annual expenditure for operating the claim department, including settlements, dropped 75%. Despite considerable decrease in total gross earnings of the transportation system, the ratio of total claims expense to gross earnings dropped from 6.9% to 2.8% during such twenty-year period (3027).

5. There are three street railway lines now operated by the El Paso System in El Paso and in Juarez, namely, the Fort Bliss Line, 6½ miles in length, from downtown El Paso to the Fort Bliss Military Reservation; the Park Line, 4½ miles in length, from downtown El Paso through thickly populated Mexican districts to Washington Park, an amusement park; and the Mexico Line, a loop route from downtown El Paso across one toll bridge to Juarez and back across the other toll bridge, the distance from one end of the route in El Paso to the furtherest point on the loop in Juarez being about 3½ miles. There is also a small branch line, 2½ miles long, off the loop line from Juarez to an abandoned race track (3028-3029). The transportation division of the El Paso System consists of the track and overhead department, which is in charge of a superintendent responsible for the street railway and track overhead and who also supervises crews engaged on new construction or maintenance of the different properties of the system; the mechanical department, which has a personnel of about 35 employees and is under the supervision of a superintendent; the claim department, consisting of a claim agent and an assistant claim agent (who is also the system's safety engineer) and who do claim, accident and safety work for the entire system; and the operating department, which is in charge of a superintendent and has a personnel of about 125 (2580-2582; Eng. Ex. 137). During the year 1940 the

EL PASO TRANSPORTATION (Cont'd)

total number of passengers carried by the El Paso Company's transportation system was 8,328,000, of which 4,077,000, or 49%, were railway passengers and 4,251,000, or 51%, were bus passengers; and the number of [R. p. 11169] passengers carried in street cars over the El Paso and Juarez Company's lines was 1,242,400 (3033). During 1940 the El Paso Company's transportation system operated 1,998,000 miles, 706,000, or 35%, being railway miles and 1,292,000, or 65%, being bus miles. The railway miles operated by the El Paso and Juarez transportation system were 97,000 during that year (3033-3034). For the year 1940 the operating revenues of the transportation business of the El Paso System were $674,617 and of the electric business were $2,782,918 (Eng. Exs. 175, 176). For the year 1940, the balance remaining before interest and amortization, after giving effect to the re-allocation of expenses between departments suggested by Mr. Yetman, Treasurer of the El Paso Company, was $918,680 for the electric business and $81,975 for the transportation business of the El Paso System (2933; Eng. Ex. 176). The book value of the total transportation property of the El Paso System at December 31, 1940 was $2,423,651; consisting of $1,519,449 for the street railway property of the El Paso Company in El Paso, excluding the American portions of the two toll bridges; $169,510 for the El Paso Company's interest in said two bridges; $295,906 for the bus property of the El Paso Company in El Paso; $269,276 for the street railway property of the El Paso and Juarez Company in Juarez; and $169,510 for the interest of the El Paso and Juarez Company in the two toll bridges (2935-2936). The book value of the total electric property of the El Paso Company at December 31, 1940 was about $12,300,000.

6. The operations of the electric system and the transportation system of the El Paso System are carried on

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EL PASO TRANSPORTATION (Cont'd)

jointly; the accounting work for both is done in the general office of the El Paso Company; both are supervised by one group of supervisory officials; there is joint use by both of storeroom facilities and personnel (3021). There is joint use of facilities and personnel between the railway and electric systems; the operation and maintenance of railway converter equipment, necessary to supply direct current to the street railway operations, is done by the electric system personnel, and all charges are allocated to railway expense; there is joint use of poles; joint use of underground power ducts at a great saving to the transportation system; joint use of automobiles and trucks; the engineering work of the transportation system is carried out by the general engineer of the El Paso System and his staff; overhead and track maintenance crews are used in either the electric or transportation systems with resulting economies; and the claim department renders services to both systems, both as to claim and safety work (3021-3023). A portion of a building owned by the El Paso Company, called the Transportation Building, is used by the electric department and a portion of the land adjacent to this building is used by the electric department for storage of automotive equipment (2926). There are 44 joint employees doing work for the electric and transportation departments, 4 being in the executive group, 12 in general accounting, 3 in purchasing, 6 in stenographic, 3 in cashiering, 2 in claims, 2 in advertising and publicity, and the balance being [R. p. 11170] clerks of a miscellaneous nature (3084-3085). During 1940, the total joint pay-roll of employees rendering services to the transportation and other departments of the El Paso System was $120,880 and, after the re-allocations suggested by Mr. Yetman, the amount thereof chargeable to transportation was $20,750.52 (3078-3079). The El Paso and Juarez Company has no employees, all of its work being handled by the

Excerpts from Requested Findings and Brief on Behalf of Respondents.

EL PASO TRANSPORTATION (Cont'd)

El Paso Company under its operating contract (2577; Eng. Ex. 129). By the joint use of personnel between the electric and transportation systems the best interests of efficient operation are served and a diversity of work results which enables the El Paso Company, by proper scheduling of work, to avoid labor turnover which gives employees a sense of security in their jobs. The combination of transportation and electric operations results in advantages to each in respect of the supervisory organization and accounting work, purchasing, personel, claim and safety work (2586-2587; Eng. Ex. 137).

7. The amount which would have to be charged off the books of the El Paso System representing railway and bridge properties, if the transportation properties were disposed of, is, as of May 31, 1941, $2,131,359 (3050-3051). The amount of electric power furnished the railway is only 686 kw out of a total system annual peak load of about 30,000 kw (3141). The remainder of the El Paso Company would not benefit if the capacity now utilized for supplying the railway load were released for other use by reason of the disposition of the transportation properties of the El Paso System to a purchaser who would convert the transportation operations into all bus operations (3053-3055). If the transportation system of the El Paso System had to be divested and could no longer be operated jointly with the remainder of the El Paso Company, the electric system of the El Paso Company would have to bear $29,231 per year of expenses now assigned to the transportation system pursuant to re-allocations of interdepartmental expenses proposed by Mr. Yetman, Treasurer of the El Paso Company (3152). This amount of $29,231 is made up of: payroll of executive and other joint personnel and associated payroll taxes—$13,840; jointly used facilities—$6,080; pensions—$7,270; and contributions, dues, etc.,—$2,041 (3037-3046, 3076, 3101, 3257; Com. Ex. 64).

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EL PASO TRANSPORTATION (Cont'd)

8. The Park Line and the Mexico Line are in good condition and their operation will be continued without any unusual amount of maintenance for about ten years until the railway franchise in El Paso expires in 1951. The small branch line off the loop line, the book value of which is $35,024 covering both track and overhead, will be abandoned as soon as permission is received from the Federal authorities in Mexico City. The Fort Bliss Line will continue to be operated for not less than three to five years (3029-3032, 3033). If the Fort Bliss Line were abandoned within three to five years, only the outer portion could be abandoned and retired and such portion has a book value of $329,134 (3034-3035). The railway [R. p. 11171] division of the transportation system of the El Paso System will have no capital requirements during the next ten years (3035-3036). The gross and net operating revenues of the El Paso System's transportation system during 1940 may safely be regarded as a minimum average for the next ten years (3036-3037). If the transportation business of the El Paso System were disposed of, the purchaser would not continue the street railway operations as at present, but would convert the entire operations to bus operations (3046, 3238). If the transportation operations were converted to all bus operations, under existing conditions, the cost would be $476,500, made up of $41,500 for restoration of paving after crediting salvage from cars and other equipment; $360,000 for necessary new buses; and $75,000 for necessary additional garage facilities (3046-3048). At May 31, 1941, the book value of the El Paso System's bus property was $403,483 (3048). A purchaser of the El Paso System's transportation properties would desire to purchase the two international toll bridges (3049). The book value of the bus system properties on the basis of the conversion of the railway operations to all bus operations and including the

EL PASO TRANSPORTATION (Cont'd)

book value of the two international toll bridges, is $1,219,003, made up of $403,483 as the book value of the present bus properties; $476,500 as the cost of converting the present railway property to all buses; and $339,020 as the book value of the two international toll bridges (3050). There is no property of the El Paso System's transportation system which would be used by or useful to the remainder of the El Paso System, or which it would desire to retain, if such transportation properties were disposed of (3050). Based on the 1940 level of earnings, the net annual increment cash to the El Paso Company from transportation operations is $177,000 computed by adding (1) the $82,000 gross income of the transportation system, (2) the $75,000 depreciation accrual available for return of capital, being the $101,000 accrual for railway and bridge depreciation less $12,000 estimated accrual required for bridges and $14,000 accrual required for bus replacements after substitution of buses for the Fort Bliss Line, and (3) the $20,000 estimated expenses and charges now borne by the transportation department which would have to be borne by the electric department if the transportation department were sold, being $29,000 of such expenses and charges less a Federal income tax saving of $9,000 (3218-3221). If the annual increment cash from transportation operations of $177,000 is invested in light and power operations of the El Paso Company and earns a 6% return, it would amount to the total book value of the transportation property, namely, $2,423,651 in 10.3 years (3224-3225). The present estimated market value of the transportation properties is $944,000 computed by adding (1) the $807,000 total market value which is the $1,284,000 value fully converted to bus [R. p. 11172] operations, computed at six times the

Excerpts from Requested Findings and Brief on Behalf of Respondents.

EL PASO TRANSPORTATION (Cont'd)

$214,000* net operating revenue before depreciation, less the $477,000 cost of conversion, and (2) the $137,000 net current assets of the El Paso and Juarez Company (2240, 3222-3223; Eng. Ex. 187). The present worth of the transportation business to the El Paso (Delaware) Company and its subsidiary companies is approximately $1,832,000, which is $1,303,000, the present worth of $177,000, the net annual increment cash for the next ten years, invested to yield 6%, plus $529,000, the present worth of a business for sale ten years hence at $944,000 (3221; Eng. Ex. 187). The estimated present sales realization of the transportation properties is $985,000 computed by adding to the $944,000 present estimated market value, an estimated Federal income tax saving of $41,000 (3223-3224; Eng. Ex. 187).

* * * * *

* Mr. Barnes readily agreed when his attention was called to the point on cross examination (3262-3263) that the net operating revenue before depreciation of the transportation department, as set forth in the first line of Part II of Eng. Ex. 187, should have included an additional amount of $7,270, representing pensions presently paid by the Transportation department, which were to be assumed by the electric department at the time of sale and, therefore, would not be a charge against the Purchaser in his operating expenses. Referring to the above mentioned first line of Part II of Eng. Ex. 187, the figure $207,000 ($206,797) for such net operating revenue (taken from Eng. Ex. 176 as the sum of the balance of $81,975 and the depreciation of $124,822) should have included the $7,270 of pension expense, so that the corrected net operating revenue before depreciation to the Purchaser would be $214,000 ($214,067), (see Exhibit C to this brief for adjusted Eng. Ex. 187).

[R. p. 164]

BEFORE THE

Securities and Exchange Commission

IN THE MATTER *of* ENGINEERS PUBLIC SERVICE COMPANY	File No. 59-4.

Hearing Room 1103,
Securities and Exchange Commission Building,
Washington, D. C.
Tuesday, April 22, 1941.

Met, pursuant to notice, at 10:00 o'clock a. m.

Before
W. W. SWIFT, Trial Examiner.

EXCERPTS FROM THE TESTIMONY.

(Appendix pages 363 to 540, inclusive, contain excerpts from the transcript of hearings before the Trial Examiner of the Commission, held pursuant to the Commission's Order under Section 11(b)(1) of the Act. The numbers in brackets indicate the paging of the certified transcript, which are the same as that of the original reporters' transcript. Corrections have been made in these excerpts in conformity with the corrections set forth in Document No. 417—R. pp. 8149-8228.)

* * * * *

[R. p. 270]

J. V. MITCHELL

called as a witness on behalf of the Respondents, being first duly sworn, was examined and testified as follows:

The Examiner: Take the stand please, sir.

The Witness: J. V. Mitchell.

Direct Examination

Q. (By Mr. Moore) Will you state your name, age and residence, please? A. My name is J. V. Mitchell and I am 37 years of age. I reside at 612 West Franklin Street, Richmond, Virginia.

Q. What is your position with Virginia Electric & Power Company, Mr. Mitchell? A. I am assistant comptroller, in which capacity I act as an assistant to Mr. P. R. Williams, who is comptroller.

In addition, I also act as assistant to G. B. Williams, who is the treasurer of the Company.

Q. How long have you acted in that capacity? A. About 7 years.

Q. Is it your duty in that capacity to supervise the accounting work of that Company under Mr. P. R. Williams, the comptroller? A. It is my duty to supervise, under Mr. P. R. Williams [R. p. 271] the Comptroller, the accounting personnel, accounting records, and accounting work of the entire company. In addition, I supervise under Mr. G. B. Williams, the Treasurer, the accounting work incidental to taxes and financing.

VIRGINIA TRANSPORTATION (Cont'd)

Q. In other words, you are in immediate charge of the supervision of the accounting? A. Yes, sir.

Q. What has been your education, experience, and qualification for your present position? A. I am a college graduate, having attended Holy Cross College, located at Worcester, Massachusetts, and Providence College, located at Providence, Rhode Island.

I received the degree of Bachelor of Arts from the latter institution in June of 1924. Subsequently I completed all work necessary for a Master's degree in Business Administration, except the writing of a thesis.

I have had 16 years experience in public utility accounting work.

In May of 1925, I was employed in the accounting department of the Blackstone Valley Gas & Electric Company located at Pawtucket, Rhode Island. I did accounting work in the Pawtucket and Woonsocket offices of that company until 1927, when I accepted a position in the Treasurer's office of Stone & Webster, located at Boston, Massachusetts.

In 1928 I accepted a position with the Virginia Electric & Power Company, located at Richmond, Virginia, and have been [R. p. 272] employed continuously there since that time.

For the last 7 years I have been assistant to both the Treasurer and Comptroller.

Mr. Moore: Mr. Lester, we have now completed what we regard as the suitable qualification of this witness as an expert accountant, and would like to qualify him as such.

Mr. Lester: Did you receive, while in college, any accounting courses?

The Witness: I took accounting courses after I received my degree of Bachelor of Arts.

Mr. Lester: Where did you take those, sir?

The Witness: I took them in Boston and in Providence, and in Richmond, Virginia.

Mr. Lester: Night courses?

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The Witness: Yes.

Mr. Lester: What schools?

The Witness: Northeastern University in Boston and its branch in Providence, Rhode Island, and at William and Mary College, the extension division, located in Richmond, Virginia.

Mr. Lester: How many semester hours did you have?

The Witness: I really don't recall that.

Mr. Lester: I think we can admit Mr. Mitchell's qualifications.

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(By Mr. Moore)

[R. p. 288] Q. Have you prepared an income statement of (Virginia Electric and Power Company*) for the year 1940? A. Yes, sir.

Mr. Moore: Mr. Examiner, we now offer this income statement as Engineers' Exhibit No. 10.

(The document referred to was marked for identification as Engineer's Exhibit No. 10.

The Examiner: It is admitted under that number.

(The document referred to was received in evidence as Engineer's Exhibit No. 10.)

Q. (By Mr. Moore) Does that statement, Mr. Mitchell, accurately reflect the income of the company during the year 1940 as shown by the books? A. Yes, sir, it does.

Mr. Lester: I assume you are talking of income per books only?

Mr. Moore: That is exactly what I asked.

Mr. Lester: No objection.

Q. (By Mr. Moore) Will you now briefly comment on the high points that are indicated on this income statement?

* Name supplied from context.

VIRGINIA TRANSPORTATION (Cont'd)

A. The income statement for 1940 shows that operating [R. p. 289] revenues amounted to approximately $20,992,000, an increase of $1,638,000 over the previous year. Operating expenses amounted to $9,462,000 representing an increase of $547,000. Taxes amounted to $3,253,000 or an increase of $647,000 over 1939. Interest charges increased $24,000 to $1,762,000 and depreciation charges increased approximately $92,000 to $2,333,000. There was an increase of $295,000 in the balance available for dividends and surplus, bringing this figure to approximately $4,120,000 for the year.

Q. How do the 1940 operating revenues show up from the standpoint of separation between departments? A. Total operating revenues in 1940 amounted to $20,992,213. Of this amount, $14,909,800 or 71 percent applied to the electric department; $5,027,426 or 24 percent applied to the transportation department; and $1,054,987 or 5 percent applied to the gas department.

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[R. p. 305] Q. Will you now briefly describe the jointly used property or facilities which affect the operations of the transportation department? A. In general the jointly used facilities affecting the operations of the transportation department, are the general office buildings owned in Richmond, Norfolk, and Petersburg, general office furniture and equipment, store rooms and stores equipment in Richmond and Petersburg, automotive equipment, some jointly used poles in Richmond and Norfolk, and a central heating plant located in Richmond used for heating the car and bus barns and electric distribution building.

In addition, the electric department furnishes electricity to the railway department for the operation of street cars in Richmond and Norfolk, and furnishes electricity to the gas department at Norfolk. The gas department furnishes

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gas to the electric and transportation departments in Norfolk.

[R. p. 306] The transportation department furnishes transportation to the electric department employees in Richmond, Petersburg, and Portsmouth, and to electric and gas employees in Norfolk.

Q. Will you now state briefly how the transportation department has been charged for its portion of the expenses of operating those joint facilities? A. In connection with the general office buildings owned by the company in Richmond, Petersburg, and Norfolk, no charge for rent was made to the transportation department, but the expenses of operating the buildings were apportioned between the departments affected. In regard to general office furniture and equipment, no charge was made to the transportation department. In regard to store rooms and stores equipment in Richmond and Petersburg used by the electric and transportation department, no charge was made against the transportation department, but the cost of operating the store rooms was allocated to the departments on the basis of the materials issued. In connection with the automotive equipment, no charge was made for the investment, but the cost of operating the equipment was allocated between departments on the basis of the mileage use of each department. No charge has been made between departments covering jointly used poles. In regard to the central heating plant in Richmond, no charge was made to cover the investment, but the cost of operation was apportioned one-third to the electric depart- [R. p. 307] ment, one-third to the railway department and one-third to the bus department. Electricity furnished to the transporation and gas departments was charged for on the basis of the average switchboard cost, which includes purchased power and transmission expense. No charge was made for gas furnished to the electric and transporta-

tion departments in Norfolk because of the comparatively small amount involved. No charge was made to the electric and gas departments for transportation furnished by the transportation department to some of the employees of the electric and gas departments.

Q. Do the expense figures shown in your Exhibit No. 10—I mean Engineers Exhibit No. 10—for the railway and bus departments, include any expense in connection with the personnel used jointly by the electric and transportation departments? A. Yes, sir, they do.

Q. What is the method used in allocating the expense of jointly used personnel in the transportation department? A. In general, the salaries of jointly used employees are allocated between departments on the basis of the ratio which the net earnings, after operating expenses, of each department bear to the total net earnings of the entire company. The net earnings used are those of the previous year. There are, however, some instances where the salaries of certain employees are allocated between the departments on [R. p. 308] basis of gross earnings and there are other instances where the salaries are allocated on the basis of special apportionments deemed to fit the conditions in the particular case.

Q. How long has the present method of allocating joint expenses been in effect? A. Since January 1, 1933.

Q. What was the reason the present method was adopted? A. The present method was adopted because it was thought that it would effect a distribution of joint expenses between departments, which would be more fair and reasonable to all departments, and would more closely reflect the actual conditions.

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VIRGINIA TRANSPORTATION (Cont'd)

J. V. MITCHELL

Cross Examination

(By Mr. Fischgrund)

[R. p. 367] Q. Do you know how many employees there are in the transportation department? A. I can give some information regarding that, though I don't know whether it is exactly what you want.

Q. What figures do you have? A. At December 31, 1939, there were 1,466 employees who spent their entire time on work for the transportation department.

At the end of 1940 there were 1,476 such employees.

Q. Will you state how many employees there were at the end of 1939 and at the end of 1940, who devoted part of their time to the transportation department? A. There was a total of 367 employees at the end of [R. p. 368] 1939, whose work was concerned with one or more departments of the company.

Mr. Moore: You mean it was concerned with more than one department?

The Witness: Whose work was concerned with more than one department of the company. But I do not know what portion of those were concerned with—had any transportation work involved.

* * * * *

[R. p. 430]

T. NORMAN JONES, JR.

was called as a witness on behalf of Engineers Public Service Company and having been duly sworn was examined and testified as follows:

Direct Examination

Q. (By Mr. Moore) Will you state your name? A. My name is T. Norman Jones, Jr.; my age is 59; and my residence address is 4105 Wythe Avenue, Richmond, Virginia.

T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Will you state the office which you hold in the Virginia Electric and Power Company? A. Vice-President in Charge of Transportation.

Q. Will you state briefly your education, training and your qualifications for the office which you now hold? A. I attended a private school before attending Wilson, North Carolina, Public Schools, 1891-1896, inclusive. I left Public Schools after completing eighth grade to enter Wilson [R. p. 431] Military Academy, which I attended the one year of its existence, 1896-1897.

I entered Oak Ridge Institute (near Winston-Salem, North Carolina) the fall of 1897 and changed to Episcopal High School, Alexandria, Virginia, January 1898, completing spring term work in June 1898. I studied bookkeeping, Draughon Business College-Extension Course, completing the course in the summer of 1900. I studied by correspondence, I. C. S., Mechanical and Electrical Engineering during the years 1902-1903. I then attended University of Virginia during the years 1903-1904, continuing my engineering studies.

Eye trouble, which I developed during spring of 1904, resulted in my consulting an oculist and he advised me to do no more work requiring close application of my eyes for at least two years and to do outdoor work. This ended my formal education.

From July 1898 to December 1899 I worked in Richmond as Private Secretary to R. Lancaster Williams, who was President of The Norfolk Railway and Light Company. I then worked for John Skelton Williams, who was President of the Seaboard Air Line Railway, and L. M. Williams, banker, (in the same general offices) as stenographer, when not performing duties as private secretary. During this period I travelled out of the office of Judge L. R. Watts, Counsel for the Seaboard Air Line Railway, recording the first mortgage of the Seaboard Air Line Railway in various [R. p. 432] counties along the Seaboard's route.

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T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

I resigned as private secretary and returned home to build up my health, which had become somewhat impaired by excessive night work, in addition to day duties.

Between the spring of 1900 and February 1903, I worked as bookkeeper in a tobacco warehouse in Wilson, North Carolina, for two 8-months' seasons. When not working as bookkeeper, during the off season, I worked in a lawyer's office as stenographer and having some little ability as a telegrapher, was able to put in some time to my profit in Western Union Telegraph office in Wilson, North Carolina; I also worked as life insurance salesman out of the office of the Agent for the Penn Mutual Life Insurance Company at Wilson, North Carolina. In 1902, I made a second six weeks' trip for Seaboard Air Line Railway, recording a supplementary mortgage in counties along its lines in Virginia, North Carolina, South Carolina, Georgia and Florida.

In the spring and summer of 1903, I worked in Baltimore, dividing my time between the McKay Engineering Company's Electric Shops; and in the Motor Repair Shop and on Pratt Street Power House electric switchboard, for United Electric Light & Power Company.

In July 1904, I secured a job as an axeman on Engineering Corps in charge of the construction of the Potomac Freight Classification Yards. I worked through until July 1906 when the Yards were completed, at which time I held the position of [R. p. 433] transitman on location, having held various other jobs on the Corps during the construction period. I was responsible to the Chief Engineer for preparation of final estimates in settlement with contractors.

In July 1906, I began working under the direction of Mr. George H. Whitfield, Mechanical and Electrical Engineer of Virginia Passenger & Power Company; Richmond Passenger & Power Company and Richmond Traction Company, all at the time in charge of William Northrop and H. T. Wickham, Receivers.

VIRGINIA TRANSPORTATION (Cont'd)

I was appointed foreman of Car Barns in August 1906, having supervision over inspection and repair work in four car barns in Richmond and one at Bellwood on the Interurban line.

When the Richmond and Chesapeake Bay Railway Line, wholly owned by Mr. Frank J. Gould, and located between Richmond and Ashland, Virginia, was put in operation, the 6600 volt single phase equipment gave so much trouble that instead of operating it under the general supervision of the Richmond Transportation Department, I was appointed superintendent of the line and relieved of other duties.

I was in charge of the construction of the distribution lines of the Virginia Light and Power Company in Ashland, Virginia, and responsible for the operation of that company. The Virginia Light and Power Company was incorporated in 1905 but did not actually begin the distribution and sale of electric energy until a year or two later.

[R. p. 434] In March, 1911, I was offered by Mr. Northrop, President of the Virginia Railway & Power Company, the position of Chief Engineer of Railways of the Company. The position had become vacant through the resignation of the Chief Engineer of Railways. I accepted and held this position along with supervision over Richmond and Chesapeake Bay Railway and Virginia Light and Power Company through December 1916.

Effective January 1, 1917, I entered into new duties as Assistant General Manager, Virginia Railway & Power Company, Norfolk Division, and General Manager, City Gas Company of Norfolk.

I was appointed General Manager of Virginia Railway & Power Company, Norfolk Division, August 1, 1920. These positions I held until I was appointed Vice-President (without portfolio) of Virginia Electric and Power Company, and

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VIRGINIA TRANSPORTATION (Cont'd)

transferred to Richmond and assigned to special work, including studies of various kinds.

On August 1, 1934, my duties were added to and I was appointed Vice-President in Charge of the Transportation Department, which position I presently hold.

* * * * *

(By Mr. Moore)

[R. p. 435] Q. Now, Mr. Jones, have you a map showing the transportation routes of the company in Richmond as they were in 1925? A. I have.

Mr. Moore: Mr. Examiner, we now offer this map as Engineers' Exhibit No. 24.

The Examiner: It is admitted under that number.

(Engineers' Exhibit No. 24 was received in evidence.)

[R. p. 436] Q. (By Mr. Moore) Have you also prepared a map showing the transportation routes in Richmond for the year 1939? A. I have.

Mr. Moore: Mr. Examiner, we now offer this map as Engineers' Exhibit No. 25.

The Examiner: It is so admitted.

(Engineers' Exhibit No. 25 was received in evidence.)

Q. (By Mr. Moore) Mr. Jones, have you had a map prepared showing the transportation routes in Norfolk and Portsmouth in 1925? A. I have.

Mr. Moore: We now offer this map as Engineers' Exhibit No. 26.

The Examiner: It is admitted under the number mentioned.

(Engineers' Exhibit No. 26 was received in evidence.)

Q. (By Mr. Moore) Have you also had prepared a map showing the Norfolk and Portsmouth transportation routes in 1939? A. I have.

VIRGINIA TRANSPORTATION (Cont'd)

Mr. Moore: We now offer this map as Engineers' Exhibit No. 27.

The Examiner: It is admitted under that number.

(Engineers' Exhibit No. 27 was received in evidence.)

[R. p. 437] Q. (By Mr. Moore) Have you had a map prepared showing the company's transportation routes in Petersburg, Virginia, in 1925? A. I have.

Mr. Moore: We now offer this map as Engineers' Exhibit No. 28.

The Examiner: It is so received.

(Engineers' Exhibit No. 28 was received in evidence.)

Q. (By Mr. Moore) Have you had a similar map prepared showing the transportation routes in Petersburg, Virginia, in 1939? A. I have.

Mr. Moore: We now offer this as Engineers' Exhibit No. 29.

The Examiner: It will be admitted under that number.

(Engineers' Exhibit No. 29 was received in evidence.)

Q. (By Mr. Moore) Have you had a map prepared showing the company's transportation routes on the so-called Richmond-Petersburg interurban line in 1925? A. I have.

Mr. Moore: We now offer this map as Engineers' Exhibit No. 30.

The Examiner: It is admitted as Engineers' Exhibit No. 30.

(Engineers' Exhibit No. 30 was received in evidence.)

[R. p. 438] Q. (By Mr. Moore) Have you had a map prepared showing the company's transportation routes between Richmond and Petersburg in 1939? A. I have.

Mr. Moore: We now offer this map as Engineers' Exhibit No. 31.

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VIRGINIA TRANSPORTATION (Cont'd)

The Examiner: It is received under that number.

(Engineers' Exhibit No. 31 was received in evidence.)

Q. (By Mr. Moore) Mr. Jones, will you now tell us what are the major physical properties of the transportation department of the Virginia Electric and Power Company at the present time? A. The Virginia Electric and Power Company furnishes street railway and motor bus transportation service in four of the principal cities of the Tidewater section of Eastern Virginia, with a combined population, including suburbs, of approximately 442,000. These cities are Richmond, the capital of the State and an important industrial center, located at the head of navigation on the James River; Petersburg, a manufacturing city, located approximately 22 miles south of Richmond at the head of navigation on the Appomattox River; Norfolk, a seaboard shipping center, located on the Elizabeth River and Hampton Roads; and Portsmouth, also a shipping and railway center, separated from [R. p. 439] Norfolk by the Elizabeth River. The four cities, above named, are also served by the company's electric system. In addition to local transportation furnished to the above named cities and suburbs, the company maintains an Interurban motor bus service operating between Richmond and Petersburg. The territory served by this Interurban line is also served by the company's electric lines.

What is that distance, approximately, between Richmond and Petersburg? A. 22 miles.

Q. Will you state whether or not the district between Richmond and Petersburg is fairly well built up, or is that open country? A. There are a few small villages in between Richmond and Petersburg.

Q. Generally speaking, are there gas filling stations and tourist places along that route? A. Gas filling stations and some industrial activity. The Du Pont Company has a large plant a few miles out of Richmond.

T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Can it be regarded as in any sense on ordinary rural area between Richmond and Petersburg along the route, or is it more or less urban or semi-urban? A. Well, there are quite a number of houses, filling stations, tourists' camps, and one thing or another all the way [R. p. 440] along between Richmond and Petersburg.

Q. What is the main highway between Richmond and Petersburg? A. No. 1.

Q. U. S. No. 1? A. Yes.

Q. Will you proceed with your story, please? A. Public transportation service for these cities was originally furnished by street cars operating over fixed rails. This service has, to a large extent, during the past 15 years been supplemented by motor buses. The two transportation services are coordinated and are operated in a non-competitive manner between routes of the company in so far as competition can be avoided. Universal transfers are accepted from one method of transportation to the other in both Richmond and Norfolk.

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[R. p. 446] Q. Now, you have referred to these maps that have already been filed, in your testimony, as showing the various transportation routes; are those routes worked out and kept in fixed positions or what is the method of handling them in the way of location in these various cities? A. The routes over which the cars and buses are operated have been carefully worked out to meet the public demand for service. To meet ever changing traffic demands, routes are modified from time to time and new bus routes inaugurated, with the approval of the city authorities concerned or the State Corporation Commission of Virginia, where it has jurisdiction.

Q. Normally, in connection with your street railway operations, the State Commission has jurisdiction in all those matters, hasn't it? A. Yes, as to the railways.

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T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Will you now briefly give us a description of the physical property, the tracks and overhead wires, of the raliway system? A. 80.63 equivalent single tract miles of track are [R. p. 447] in paved area and 51.75 equivalent single tract miles of track are in unpaved or open area. The tracks in the paved area are laid, for the most part, with heavy girder rails resting on suitable foundation. The open tracks are laid with "T" rail on wood ties and well ballasted. Of the above, 41.82 equivalent single track miles, including 5.29 miles of carbarn tracks are on private right of way. There is only one viaduct of any consequence owned by the company on which tracks are located. This viaduct, known as the Spring Street viaduct in Richmond, is in excellent condition. Other bridges over which we operate cars and motor buses are either city owned or privately owned. Modern equipment for construction and repair of tracks is maintained in both Richmond and Norfolk, in which cities the company owns suitable and adequate storage facilities for housing and storing track materials and equipment. On portions of the private rights of way and on a few streets, center pole construction is used with suitable mastarms for the suspension of the trolley wires. Span wire construction is generally used in the city streets and on portions of private rights of way for the suspension of such wires. On the poles are strung the necessary feeders from the substations conveying power to the trolley wires. Railway poles from the early days of electric street lighting, in- [R. p 448] candescent lighting or commercial service have been used for the support of electric wires and today there are very few trolley poles either on private rights of way or on city streets on which electric wires are not strung. This is and has been true throughout the transportation system. In Portsmouth and Petersburg, following the complete abandonment of railway service, only a few poles were removed from the streets,

VIRGINIA TRANSPORTATION (Cont'd)

due to the fact that nearly all poles had electric wires on them and were continued in electric service. Only those poles were taken down which were used exclusively for support of trolley wires.

Q. Will you give us a brief description of some of the other principal physical properties in the transportation department? A. Adequate and suitable equipped buildings, mostly of brick and concrete, have been provided for shops, barns, garages, storerooms and gas and oil service stations, used in connection with the maintenance and operation of the company's fleets of cars and buses.

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[R. p. 449] Mr. Lester: May I interject a question?

The Examiner: Yes.

Mr. Lester: Mr. Jones, are you in charge of the transportation operations in Norfolk, or only in Richmond?

The Witness: I am in charge of the transportation operations of the system.

Mr. Lester: And as to transportation operations, Mr. Throckmorton reports to you?

The Witness: In matters, as I will bring out later on, in certain features I am consulted, and other matters he handles.

Mr. Lester: Will you bring that out later?

The Witness: Yes.

Mr. Lester: Thank you very much.

Q. (By Mr. Moore) Will you go ahead with your description? A. Adequate yard and track facilities, including maintenance of way buildings, are also in use. Adequate and suitably equipped terminal buildings are owned [R. p. 450] and maintained, in which are the offices and facilities used by the superintendents, dispatchers, cashiers, clerks and car and bus operators, required in connection with the operation of the equipment used in public transportation for the cities served. These buildings are pro-

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T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

vided with facilities for the comfort of the operators. The number of square feet of floor space in buildings devoted to transportation is 399,603. This is equivalent to an area one mile long and seventy-five feet wide.

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[R. p. 451] Q. Now, will you just state whether or not, based on your knowledge of the properties of the transportation [R. p. 452] company,—I mean these buildings, are those buildings in good condition or not? A. They are in very good condition.

Q. Are they suitable and adequate for the furnishing of an efficient transportation service in these four cities? A. We have found them so.

Q. I now wish to ask you to briefly outline the historical development of the street railway service in these cities in relation to the electric properties? A. I have made a careful study of and pieced together this story partly from city and company records, published articles by Mr. Sprague, consultation with employees who were working for the company at the time and my own knowledge. The evolution of the transportation system from the ancient horse or mule drawn car to the fast electric rail car and gas motor bus of today has been brought about by repeated adaptation to ever-changing conditions. • • • • while they were a number of companies engaged in the street railway business in Richmond, Petersburg, Norfolk and Portsmouth, the earliest of such companies being the Richmond Railway Company (incorporated March 29, 1860), it was not until the Richmond Union Passenger Railway Company, originally a horse car transportation company, (chartered March 23, 1887) began operating (May 4, 1888) electric [R. p. 453] cars over some of its tracks that electricity was used in connection with passenger transportation on a large scale. The electrification referred to was conceived in 1887 when territory north and east of Church Hill, the eastern resi-

VIRGINIA TRANSPORTATION (Cont'd)

dential section of Richmond, was becoming a prominent and promising development. The Richmond Union Passenger Railway Company made its plans to extend horse-car transportation to help in the building up of that section. It was authorized by the city council to electrify June 13, 1887.

Q. In that connection, may I ask you what was the date of the first central station plant known as the Edison-Pearl Street Station plant in New York City? A. 1882.

Q. What is the relationship of that Pearl Street Station of 1882 to the electric industry generally? A. I think that is generally credited as being the first central station electric plant.

Q. All right, sir. A. At the same time an electrical engineer, Frank J. Sprague of New York City, was experimenting with the electric motor for transportation purposes and hearing of the proposed horse-car line that was to be built in Richmond, entered into negotiations with the Richmond Union Passenger Railway Company to electrify the new system. His plans interested the horse-car transportation management and arrangements were made to operate [R. p. 454] the new line electrically, instead of by horses or mules.

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[R. p. 454] The Witness: The contract with Sprague called for 40 cars seating 20 passengers each, each equipped with two 7½ horsepower single-geared motors, the laying of about twelve miles of track and the construction of a complete steam and electric central station plant of 375 HP capacity. All this was to be completed in ninety days at a cost of $110,000, payment to be made "if satisfactory". On May 4, 1888, thirty of the forty cars contracted for were placed into operation. Tests from time to time had been [R. p. 455] made since early in January, but on May 4 the first scheduled service was put into operation.

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T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 455] Q. Mr. Jones, is it not true that the Richmond street railway system is generally known in the industry, that is the street railway industry, as one of the first if not the first street railway line put into commercial operation in this country, operated electrically? A. It is generally regarded, I think, as the first large street railway operation on a commercial scale.

Q. All right, sir. Now, go ahead with your story. A. The first electric power stations in Richmond of any importance were the stations of the Old Dominion Light & Power Company on 5th Street, in South Richmond, which was then called the City of Manchester, and the plant of the Richmond Schuyler Electric Light Company on Canal Street, between 10th and 11th Streets, Richmond, known as Basin Bank Arc Station. It was on the bank of a canal basin. That is the reason it got that name. In the Old Dominion Light & Power Company's plant were two steam engine driven generators, one a 45-HP machine for arc lights, the other a 60-HP machine for multiple lighting service. This plant was started in 1886 and furnished power to the Southern Railway yards and lighted several of the streets of [R. p. 456] South Richmond. The Richmond Schuyler Electric Light Company's plant was started with one engine on the first floor, belted to shafting on the second floor, and from this jack shaft belts were run back to the first floor to operate five 40 light Schuyler arc machines —three for street lighting and two for commercial lights. (Series arc street lights and series arc lighting for stores). The Richmond Union Passenger Railway Company was chartered by ordinance of the Council of the City of Richmond, approved March 23, 1887, pursuant to authority of the Act of March 20, 1860. This company was authorized to construct railways on certain streets in Richmond. Its central station was located on the west side of 7th Street, between Cary and Canal Streets, in the City of Richmond.

VIRGINIA TRANSPORTATION (Cont'd)

The Central station was probably constructed in 1887 as experimental electric car service was begun in November of that year. The central station contained six Edison D. C. machines, driven by three 125-HP steam engines, each driving two railway generators. The D. C. machines were operated at a constant potential of about 450 volts. This plant also contained machinery of the Virginia Electric Light and Power Company, which I shall refer to in just a moment, consisting of one 3,000 lighter, one 1,500 lighter, and two 750 lighters. The term "lighter" refers to the capacity of the equipment in 16 C. P. lamps. They were driven by four steam engines, the size of which is not known, to supply A. C. 1,100 V. primary 133 cycles and two Edison D. C. machines driven by two steam [R. p. 457] engines, the sizes of the machines and engines also not being known, used to supply 250 V. D. C. for commercial power. The Virginia Electric Light and Power Company was incorporated June 28, 1887 as The Excelsior Electric Light and Power Company. The object of the company was to manufacture and sell electric light and power and to conduct the business of a messenger service in the City of Richmond. By charter amendment, dated October 18, 1887, the name of the company was changed to Virginia Electric Light and Power Company. The equipment from the Old Dominion Light & Power Company's plant was moved to the Richmond Union Passenger Railway Central Station, above mentioned, on 7th Street and it is of interest to note that "the entire" generating equipment was moved in a single day and that the generators were operating before dark without interruption to the street lights.

Q. That indicates to some extent the size, does it not? A. It does. The plant of the Richmond Schuyler Electric Light Company was closed in 1891 and the arc machines were transferred to the second floor of the 7th Street building in which equipment of the Richmond Union Passenger

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VIRGINIA TRANSPORTATION (Cont'd)

Railway Company and Virginia Electric Light and Power Company was housed. It is worthy of special note in connection with the above that the electric generators and steam engines of Richmond Union Passenger Railway Company used in furnishing 450-volt direct [R. p. 458] current for the railways and the generating equipment of the Virginia Electric Light and Power Company were housed in the same building and apparently the equipment of both companies was installed the same year—1887. By amendment to the charter of the Virginia Electric Light and Power Company on April 2, 1890, authority was given to transfer the property rights and franchises of said company to the Richmond Railway & Electric Company. This was effected by deed dated May 21, 1890. The equipment of both Richmond Union Passenger Railway Company and Richmond Railway & Electric Company was moved to the Brown's Island plant in 1894 and the plant on 7th Street, between Carey and Canal Streets, was closed. The machinery taken from the Schuyler plant in 1891 to the plant on 7th Street, between Carey and Canal Streets, was again moved in 1892 or 1893 to Johnson Island plant. Both the Brown's Island and Johnson Island plants were plants of the Richmond Railway & Electric Company. In the Brown's Island plant of the Richmond Railway & Electric Company were five 550-volt D. C. machines for railway use, two 250-volt D. C. machines for commercial power, and one Stanley A. C. generator, 2,300 volt, 3 phase, for commercial lights and residential service; all driven by steam engine, the size of which is not known. In the Johnson Island plant were seven Wood arc machines, each capable of serving eighty 2,000 C. P. arc series lamps and five Schuyler arc machines, each [R. p. 459] capable of serving forty-five 1,200 C. P. arc lamps. By deed dated April 13, 1900, all of the properties, rights, privileges and franchises of the Richmond Railway & Electric Company were granted, conveyed and as-

signed to the Richmond Passenger & Power Company. About 1903 or 1904, both the Brown's Island and the Johnson Island plants of the Richmond Passenger and Power Company were shut down. A company known as Virginia Electrical Railway and Development Company had shortly before that date constructed a plant at 12th Street in the City of Richmond where the present main 12th Street Plant of Virginia Electric and Power Company is now located.

Q. That was the beginning of the power development at that location, was it not? A. That is right, the electric power development. Virginia Electrical Railway and Development Company had transferred its properties to Virginia Passenger and Power Company in 1902 so that in 1903 this latter company owned the 12th Street plant. After the Brown's Island and Johnson Island plants were shut down, electric current required for the operation of Richmond Passenger and Power Company was furnished from the Virginia Passenger and Power Company's 12th Street plant. The properties of Richmond Passenger and Power Company and Virginia Passenger and Power Company were operated by receivers from 1904 to June 1909, at which time the properties [R. p. 460] of these companies were conveyed to Virginia Railway and Power Company, immediately following the organization of this company, the name of which was changed to Virginia Electric and Power Company in 1925.

Q. Now, Mr. Jones, passing on to the other cities, and with more brevity, will you now first briefly refer to the development in the Norfolk-Portsmouth territory? A. In the Norfolk-Portsmouth territory, we find that the railways preceded the electric property, as was the case in Richmond. Norfolk & Ocean View Railroad & Hotel Company was incorporated February 27, 1879 and was empowered to maintain a railroad from the City of Norfolk to Ocean View. The name of this company was changed by

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VIRGINIA TRANSPORTATION (Cont'd)

charter amendment, dated January 8, 1896, to Norfolk & Ocean View Railroad Company. It operated a narrow gauge, single track, steam line, constructed in 1879, running from its terminal at Henry and Church Streets, in the City of Norfolk to Ocean View, a distance of about 8.25 miles. This line was electrified about 1898. The property after electrification consisted of a single track, standard gauge, electric line over the same route as previously used for the steam line. The company built its own power station at Oakwood, a small suburban residential section along its railway line, where it installed generating equipment of approximately 300 KW capacity.

[R. p. 461] Q. Will you now just make a brief statement regarding the situation in Portsmouth? A. In Portsmouth, on October 19, 1887, the City of Portsmouth granted a franchise to the Portsmouth Street Railway Company to operate its horse or mule drawn cars on certain streets. A map we have shows the location of the tracks on certain streets and bears a clerical notation to the effect that the property was covered by deed of a mortgage from Portsmouth Street Railway Company to The Mercantile Trust Company of New York, November 2, 1887. The Port Norfolk Electric Railway Company, incorporated December 22, 1891, was authorized to construct a railroad into Portsmouth. The horse-car lines were built in 1892, 3.3 miles of them. The lines were electrified in 1895. The Old Dominion Railway Company, incorporated February 26, 1901, had 15.26 miles equivalent single track electrified railway lines. Its 300-kw power plant was located on Laurel Street. The Citizens Light, Heat & Power Company, about 1890, built the first electric light plant in Portsmouth. The plant was on Queen Street, and of approximately 100 kilowatts capacity. This company was originally the Edison Electric Light & Power Company, incorporated December 26, 1888. Its name was changed to the Citizens Light, Heat & Power Company on November 22, 1889.

T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Now, will you take up Petersburg, at this point, and [R. p. 462] give the same kind of information? A. In Petersburg, the first street railway horse-car lines were built by George Beadle, operating as the Petersburg Street Railway. He was granted the right to build by the Council on October 3, 1882. He incorporated and secured a franchise for his operations and turned it over to the Petersburg Street Railway Company, which was incorporated March 1, 1884, taking over Beadle's contract and property. The Petersburg Street Railway Company, incorporated March 1, 1884, by ordinance adopted by the Council in 1890, was authorized to take over the properties. Horses or mules apparently were used, beginning the latter part of 1883. There was some delay in connection with the construction of the lines, the history of which does not make it clear, but it was last recorded by ordinance that Beadle was given 80 additional days, from August 1, 1883, in which to complete construction of tracks. An ordinance of March 1, 1886 authorized Beadle to change motive power from horses and mules to electric cable, steam or compressed air. On April 16, 1887, the Council entered into a contract with Moses Joy, Jr., of Milford, Massachusetts. Rights were granted, as far as the Council could do so, to Joy, to place poles and wires in the streets and alleys of the city. A 5-year contract from the first day of furnishing service [R. p. 463] was entered into. On August 1, 1888, by contract, Joy assigned his rights to The Upper Appomatox Company for $1 and other valuable consideration. The Upper Appomatox Company entered into a contract May 22, 1893, making a new contract covering street lights, lights to be placed in "town clock in same manner in which they are used;" also "to be set in city at such points as they are now located." That gives an indication that they were there in use at that time.

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T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Now, what are the most significant points regarding the historical development of the street railway business in relation to the electric light and power business in all four of those cities? A. That transportation preceded the electric business.

Q. Now, will you make any further comments that you have in connection with that? A. While we have been unable to obtain as detailed information regarding the early history of the electric light and power business in the Norfolk-Portsmouth district as was available in Richmond, our files show that it was some time after 1884 that the first small electric plants were installed in this district * * * all electric light and power [R. p. 464] and railway companies in the Norfolk and Portsmouth territory became a part of the Virginia Railway and Power Company in 1911. From the outset, the facilities required by the electric light and power business and by the transportation business were so much alike, especially in power generation and distribution of power by use of poles and wires, that it was only natural that the companies engaged in the two businesses should be brought together. The separate companies operating in Richmond prior to the reorganization of 1909 were very closely affiliated, as I have already indicated. After that time in Richmond both street railway and electric service were supplied by the same company. Of course, during all of this earlier historical period, street railway service was the real source of revenue, and electric service was merely incidental and developmental. An indication of relative earnings is to be found in the first year's operation of the Virginia Railway and Power Company, year ended June 30, 1910, when electric earnings amounted to only $614,366, whereas transportation earnings amounted to more than twice as much, or $1,444,240. As a matter of economic history, the second half of the period saw a so

much greater development in the electric utility business that it is now the principal source of revenue.

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[R. p. 465] Q. Now, will you briefly give us a summary history of the main facts relating to the transition from street railway service to bus service by the Virginia Electric and Power Company? A. During the spring of 1925, the Virginia Railway and Power Company at Norfolk was negotiating with the City Council in an effort to secure the passage of an ordinance which would permit the Company to operate gasoline motor buses in addition to its electric street cars in a coordinated system, and for the elimination of the "jitney". "Jitneys", as the five-cent fare, [R. p. 466] privately owned and operated automobiles, homemade buses seating approximately ten to twenty passengers, and other nondescript vehicles were called, were being operated in Norfolk, Portsmouth and Petersburg, at the pleasure of the owners. Jitneys operated over street car routes as well as over other routes in these cities, and only during such hours as the operators felt disposed to operate, in such manner as to render most unprofitable the operation of regularly scheduled street car service. The result was, to a large extent, irresponsible operation, for even moderate protective requirements were late in being enforced by city ordinances. This state of affairs was deplored by the city authorities as well as by Virginia Railway and Power Company officials, and was responsible for the negotiations in Norfolk, referred to above. These negotiations had not been completed as of July 1, 1925, when the control of the property changed heads. The new management proceeded immediately to carry on the negotiations and they were brought to a successful conclusion a few weeks later. About the same time in Richmond, the company was negotiating for the purchase of the Richmond Rapid Transit Corporation, which company was operating regulated bus service,

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VIRGINIA TRANSPORTATION (Cont'd)

the outgrowth of jitney service which had been eliminated in certain sections of the city, said negotiations being brought to a head and completed effective September 11, 1925, resulting in a coordinated transportation service with interchange of transfers [R. p. 467] between cars and buses. A bus ordinance was passed in Richmond as of August 24, 1926, which enlarged the scope of bus operations and covered all such operations. As soon as the bus ordinances had been passed in Norfolk, negotiations were undertaken with the owners of the "jitneys", looking to their purchase, and while the bus ordinance in Norfolk was contested by the "jitney" operators, they lost out when an election was held and the company purchased all of the "jitneys" operating in Norfolk. Having control of the "jitney" situation in Norfolk, the company proceeded with the development of plans looking to the operation of bus routes and rail routes in a coordinated system, and in a manner so as to avoid competition between the company's lines as far as practicable. This involved, in some cases, rerouting, and in other cases, the discontinuance of the operation of certain poorly located street car lines and the substitution of motor bus service for the same over more direct routes. Due to the great increase in the use of private automobiles and the constant demand for smooth street surface, resulting in a heavy increased cost for tracks and paving, it was found desirable and more economical to make motor bus substitution for cars on many streets where such paving expenditures, involving track reconstruction and paving, were contemplated. These plans having been approved by the proper authorities, the company proceeded with the abandonment of certain tracks, the construction of some new tracks and the [R. p. 468] rerouting provided for, the major portion of this work being accomplished in 1927. About the time the bus ordinance in Richmond was passed, the company secured a new street railway franchise effective August 19, 1926, and proceeded, as in Norfolk, to plan and

VIRGINIA TRANSPORTATION (Cont'd)

develop a better coordinated transportation system. From time to time since it has become desirable to abandon rail lines and substitute motor bus lines therefor in both cities. Such abandonment, of course, can be made only after the approval of the Virginia State Corporation Commission and the local City Council. The service in both Richmond and Norfolk is thoroughly coordinated and both heavy traffic and light traffic lines are served by either bus or rail service. In Portsmouth the "jitney" problem was likewise difficult of solution and it was July 28, 1926 before an ordinance was passed which made it practical for the company to operate buses in addition to its street cars. Following the passage of this ordinance, the company bought many of the "jitneys" operating in Portsmouth and proceeded with the development of a coordinated system of street cars and buses. This system continued operating, with modification of routes from time to time, until July 28, 1935, when all rail lines were abandoned, under an arrangement made with the City Council and the State Corporation Commission, and full motor bus service operated over all lines. Such service is still being operated in Portsmouth. [R. p. 469] In Petersburg a motor bus ordinance was passed as of November 16, 1926, at which time the company proceeded to operate motor buses in addition to its street cars in Petersburg, forming a coordinated system. The Company continued this operation until June 7, 1936, when all rail lines were abandoned and full motor bus service substituted after obtaining necessary authority from the City Council and the State Corporation Commission. The company operates all city public transportation service with electric cars or buses in Richmond, Petersburg, Norfolk and Portsmouth, except that in Portsmouth and Petersburg a minor portion of the bus service is operated by two or three other operators. Transfers are issued without charge between cars

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VIRGINIA TRANSPORTATION (Cont'd)

and buses, so that car and bus operations in each city are definitely a part of a coordinated service in such city.

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[R. p. 473] Q. Now, in connection with this gradual transition from the rails to the buses that you have been referring to, what bearing has the fact that the track along a particular line has gotten in bad condition, on the decision as to whether or not rail operation will be continued on that route, or whether [R. p. 474] there will be a transition to bus? A. If a heavy reconstruction cost is involved, in connection with the reconstruction of tracks and paving, consideration is given immediately to the possibly substitution of bus service for the street railway service. That matter is carefully studied and if the conclusion is that the cost of rebuilding the tracks is not warranted, the matter is taken up with the city authorities, and if they are in agreement that buses shall be substituted, the State Corporation Commission is approached, and its permission to make the change is secured.

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[R. p. 475] Q. In cities the size of Richmond and Norfolk, however, are there certain types of operation where the rail is better adapted to furnishing efficient service any way, than the bus? A. I think in Norfolk the rail service is better adapted to the requirements of the community than bus service, for the reason that the streets are very narrow. Two lines from Ocean View, and the line from the Naval Station enter Grandby Street and then traverse a considerable portion of Grandby Street, one of them its full length, Grandby being the main retail shopping section of Norfolk. The street is very narrow and these cars use Grandby Street in coming downtown and some of them going in the opposite direction. If rail service were to be discontinued and bus service substituted in that territory, it would mean more vehicles passing through a congested

section every hour during the day than pass today, and today they have a very acute traffic congestion problem in the lower section of the City of Norfolk.

Q. Does the same condition obtain to some extent along certain streets in Richmond also? A. To a lesser extent, however, than in Norfolk.

Q. Have you a tabulation now available which shows the transportation miles of the company operated for the years 1925 to 1940 inclusive? A. I have.

Mr. Moore: We now offer this tabulation as Engineers' [R. p. 476] Exhibit No. 35.

Mr. Lester: May I ask one question?

The Examiner: Yes.

Mr. Lester: Is this passenger miles or lines?

The Witness: The mileage shown under the head of "Railway" is the miles operated by the railway cars.

Mr. Lester: In other words, car miles?

The Witness: Yes; and under "Bus", bus miles.

The Examiner: The tabulation is admitted as Engineers' Exhibit No. 35.

(Engineers' Exhibit No. 35 was received in evidence.)

Q. (By Mr. Moore) Have you had a chart prepared showing graphically the information contained in the exhibit which you have just filed, for the same period 1925 to 1940? A. I have.

Mr. Moore: We now offer this chart, Mr. Examiner, as Engineer's Exhibit No. 36.

The Examiner: It is admitted as such.

(Engineers' Exhibit No. 36 was received in evidence.)

Q. (By Mr. Moore) Have you had a chart prepared showing the railway and trackless trolley statistics as of December 31, 1924? [R. p. 477] A. I have.

Q. And the same for December 31, 1940? A. I have.

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VIRGINIA TRANSPORTATION (Cont'd)

Mr. Moore: We now offer the first of these, Mr. Examiner, as Engineers' Exhibit No. 37, and the other as Engineers' Exhibit No. 38.

The Examiner: Let those two documents come in under the numbers mentioned.

(Engineers' Exhibits Nos. 37 and 38, respectively, were received in evidence.)

Q. (By Mr. Moore) Now, Mr. Jones, will you take the first of those last four exhibits, No. 35, Transportation Miles Operated, and indicate the high points on it? A. In 1925—1925 was the year in which we began, during the latter part of the year, limited bus operations—it will be noted that the railways operated 16,644,774 miles, and the buses only 619,700 miles, or a total of 17,264,474 miles. That year the railway operated 96.4 percent of the mileage, and the buses 3.6 percent.

[R. p. 478] Q. Now skip down to 1940. A. We find in 1940 that the railway operated 7,908,533 miles, the busses 11,744,377 miles, or a total of 19,652,910 miles, the railways that year operating 40.2 per cent of the mileage, and the busses—59.8 per cent, as compared with the railway figures for 1925 of 96.4 per cent and the bus figures of 3.6 per cent.

Q. You are here referring to a railway car mile or a bus mile, are you not? A. That is correct.

Q. Now will you direct your attention to Exhibits 37 and 38 respectively, which are the railway and bus statistics for the periods December 31, 1924 and December 31, 1940, and indicate the high points? A. Well, for the system, the operated track miles, that is the equivalent miles of single track—double track being counted twice to get the equivalent—there were 227.07 miles of track at December 31, 1924. I used those figures because I could not find any comparable figure for the date on which the property changed hands, which was along about the middle of 1925.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Now what is the comparable figure for December 31, 1940? A. The corresponding operated track miles, as of December 31, 1940, for the system was 132.38.

[R. p. 479] Q. Now to come on down on that exhibit 37 to the number of railway cars that were in operation, railway passenger cars— A. (Interposing) As of December 31, 1924, on this system there was a total of 602 passenger cars, railway passenger cars, and four trackless trolley cars. As of December 31, 1940, we had 271 railway passenger cars, and 330 passenger busses, and no trackless trolleys.

Q. Mr. Jones, will you now take up briefly the method of operation of the transportation department and state how in fact the transportation service functions? A. Local city transportation service, such as that furnished by this company, consists of the operation of passenger vehicles over fixed routes on a definite schedule, and the maintaining of the necessary equipment and roadway for furnishing the service. A coordinated service by means of street cars and motor busses is operated by this company in Richmond and Norfolk; motor bus service in Portsmouth and Petersburg and on the Interurban line between Richmond and Petersburg. Operation of the equipment over the streets, roads and private rights of way is under the direct supervision of a dispatcher, whose office is located near the barns, where the operators of the cars or motor busses report for duty. In each of the cities, the dispatcher in turn reports to a superintendent, whose office is likewise located at dispatching headquarters. [R. p. 480] In Richmond, there are two superintendents, one in charge of railway service; the other in charge of motor bus service. The railway superintendent is senior in matters relating to the joint operations as directed from the terminal. Both the railway superintendent and motor bus superintendent in Richmond report directly to the manager of transportation located in

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VIRGINIA TRANSPORTATION (Cont'd)

Richmond, who in turn reports to the system central manager of transportation, also located in Richmond. In Petersburg, the superintendent reports to the manager of the Petersburg District. In Norfolk the superintendent reports directly to the manager of the Norfolk Division, who reports to the vice-president, Norfolk Division. In Portsmouth the superintendent reports to the manager of the Portsmouth District, who is under the supervision of the vice-president, Norfolk Division. The schedules to be operated over the railway and motor bus routes are determined by the company to best fit the varying demands of the riding public in all sections of the cities served. Schedule making is the responsibility of the schedule superintendent and the schedules of all coordinated railway and motor bus routes are prepared by him, with the assistance of the supervisory employees in the transportation department. Many factors enter into the making of a schedule. The first [R. p. 481] step is to determine the number of passengers carried during different periods of the day. This is known as the traffic flow and is determined by an eighteen hour traffic check made by a supervisor or an operator who is experienced in traffic checking. From this traffic check the schedule superintendent is in a position to tell what type and size of equipment is necessary to provide adequate service. After the equipment is decided upon, the headway is figured so that sufficient service is given at all times to take care of the passengers who ride according to the traffic check that has been made. The running time is then determined according to the traffic flow, the type of equipment to be operated, and the areas of the city to be operated through, in order that the miles per hour may be at such a speed that the average operator can maintain the schedule with comfort to his passengers and with a high degree of safety. After the schedule has been made, time points are then

VIRGINIA TRANSPORTATION (Cont'd)

determined according to how the passengers ride at various points along the line, also the traffic conditions in the various areas, such as, automobile and pedestrian traffic, traffic lights, traffic steps, and slow signs are taken into consideration. Where a number of lines operate over the same street consideration has to be given to splitting the schedules on the various lines in order that the equipment may be evenly spaced. Also the schedules are prepared with the view of cars and [R. p. 482] motor buses making connections with other cars and motor buses at junctions and transfer points. After the schedules are completed, they are sent to the division superintendents, who work up the operators' runs. They are then posted and put in operation. Regularity of schedules is a prime factor in rendering good service and the supervisors constantly check the traffic flow, running time and time points and report same at various intervals to the superintendent of schedules. Adjustments are made, from time to time, as it is found necessary. On practically every line there are four separate schedules, Weekday, Saturday, Sunday and Holiday, each one being made according to the foregoing practice. Schedules are changed at least twice a year, summer and winter, due to the variation in the traffic flow. However, there may be other changes during the year, if it becomes necessary. The above practice is substantially the same in both Richmond and Norfolk. In Portsmouth and Petersburg, schedules are made and adjusted to varying service requirements by the superintendent in charge. The local managers in Richmond, Norfolk, Portsmouth and Petersburg are responsible for the operations of the transportation service, consulting with the superintendents regarding schedules, operating conditions, personnel, etc., and [R. p. 483] with other department heads as to equipment and maintenance of way. Operating matters relating to company policy and practices

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VIRGINIA TRANSPORTATION (Cont'd)

in general are brought to a focus on the desk of the System General Manager, Transportation Department, Richmond. The local managers confer with the system general manager in connection with matters relating to efficiency of operation and with reference to policies which should be uniformly carried out throughout the transportation department. The system general manager also confers with the local managers and superintendents in matters relating to system purchases of lubricants, gasoline, tires, motor buses or street car requirements, etc. Purchasing for the system is done under the general supervision of the Director of Purchases and Supplies, whose office is located in Richmond. Much local purchasing is done through the local purchasing agents. In both Richmond and Norfolk the substitution of motor buses for railways is only made following negotiations with the city authorities and the working out of satisfactory plans for substitution. The local head of the district affected conducts these negotiations with city officials. The removal of tracks and the restoration of paving following the abandonment of rail service is arranged for by the manager of the district affected, and, thereupon, suitable application is made to the State Corporation Commission for authority to make the abandonment and the Commission's approval is first obtained. [R. p. 484] Following the more or less chaotic state of transportation service in the cities served by Virginia Electric and Power Company, which has previously been referred to, there has been developed in each city, through the cooperation of governing bodies, thoroughly coordinated, responsible and dependable transportation service, operated with electric cars and gas motor buses, serving the public with a minimum of competition between routes of our company; the service requirements are carefully and continually being studied and the service is being rendered by a carefully selected, well trained,

VIRGINIA TRANSPORTATION (Cont'd)

courteous and adequate personnel, to the end that the most efficient and satisfactory service may be furnished the public.

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[R. p. 485] Q. (By Mr. Moore) Mr. Jones, how is the general supervision of the transportation department's activities, conducted? A. The general supervision of the transportation department's activities, System, is a responsibility of the vice-president in charge of transportation.

Q. From an individual standpoint, that is you, is it not? A. Yes. It is his duty, among other things, to see that the most modern equipment is used which the company can afford; that adequate and suitable equipment is provided in anticipation of need; to insure standardization of equipment within practical limits; to arrange for the substitution of motor bus service for street railway service as additional heavy capital expenditures require it; to see that the annual operating budget is carefully worked out and a sound construction program is likewise prepared properly and presented to the management. It is also his responsibility to see that uniform employment and training procedures are adopted and that the company's policy, as relates to wages, gives appropriate recognition to ability, length of service, etc., to the end that comparable services shall be paid for alike over the different parts of the system as nearly as it is practical to work out such a program. Uniform wages are paid car and bus operators throughout the system, and the rating system in effect in the transportation [R. p. 486] department shops throughout the system, by which means the personal qualifications and job knowledge of individual employees are considered and evaluated, has made for a better satisfied group of employees, just as the use of intelligence tests in connection with employment procedure has been helpful in improving the quality of the personnel in the shops and on the cars and buses.

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VIRGINIA TRANSPORTATION (Cont'd)

Q. Now, is it your opinion and belief that those duties are being properly discharged, or not? A. I believe they are; otherwise I think I would have had some criticism.

Q. What do you do to check up on the efficiency of current working conditions and maintenance practices? A. Conditions under which employees must work in the shops are frequently checked to see that they are as attractive and healthful as they can be made, with due regard to the nature of the work involved. Frequent studies are made in the shops, looking to better equipment maintenance practices, and a constant lookout is being kept for improved or new machinery or tools, by the use of which maintenance work can be done more accurately and efficiently.

Q. Will you briefly state what is done in this same connection, with the Shops Department? A. A well trained and capable group of men are employed in the shops. The Shops Department not only services equipment [R. p. 487] but overhauls, repairs and paints car and bus equipment, as occasion requires. The individual motorizing of machinery in the shops has materially increased their efficiency. In addition to the use of improved machinery for maintenance of street cars and motor buses, there have been installed modern methods for inspection and greasing of the motor buses, so that at the present time this work is done on what is known as a straight line basis; that is, when the bus returns to the barns from its run, it is brought through the filling station, thence over the inspection and greasing pits or runway, and then through the wash rack, after which it is placed in the proper storage garage. All of the equipment is located in the several buildings so as to make a continuous line of operation. The use of improved machinery in the shops and efficient operation have resulted in better service to the public at a minimum cost.

Q. Now, how is the same matter handled with respect to the Maintenance of Way Department? A. A well trained

VIRGINIA TRANSPORTATION (Cont'd)

force of track men are employed to repair tracks and paving and to rebuild tracks when necessary. The Maintenance of Way Department has likewise improved its method of operation through the use of improved machinery and better materials. While the cost of labor and material has increased materially, we have been able to keep down the per mile cost [R. p. 488] of maintenance through improved methods of operation so that it is today very little, if any more than it was many years ago.

Q. Will you now comment briefly on some of the more important general activities of the Operating Department? A. Almost continuous studies of the service required on the various car and motor bus lines are made, so that adjustments to ever-changing traffic requirements can be made with the convenience of the travelling public ever in mind, and the operation of unnecessary car or motor bus mileage avoided. Many improvements in cars and motor buses have been made during recent years. Better equipment involving improved facilities for the operators' personal comfort all tend to improve the morale of the operators, which is, in turn, reflected in the type of service rendered to the public. A friendly personal relationship exists from the management on down through the superintendents and supervisors to the operators and other employees. The management is at all times ready and willing to consult with any of the personnel regarding work or personal problems. Meetings are held almost daily in the different districts where the manager, superintendents, claim representatives, and others meet to discuss matters affecting the operation and policy to be followed. Two general 18 hour checks of all the trunk lines are made annually; one in the winter and one in the summer, in order to determine the general schedules to be followed during [R. p. 489] the next corresponding season.

Mr. Fischgrund: Is that check made annually or semi-annually?

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T. Norman Jones, Jr.—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Mr. Moore: Semi-annually.

The Witness: "Two general 18 hour checks of all the trunk lines are made annually; one in the winter and one in the summer, in order to determine the general schedules to be following during the next corresponding season."

Mr. Fischgrund: I am sorry, I didn't understand you.

The Witness: In addition to these, daily checks are made of riding conditions to determine the necessity of minor changes in schedules. Some lines require more service in the winter season than in the summer, and vice versa. Daily receipts of the several lines are carefully watched and compared with the corresponding period of the preceding year to aid in determining the necessary service to be furnished. Meetings or athletic events, public speaking, and entertainment are all considered in advance in order to furnish the necessary service at the proper time. All of these checks result in almost daily changes in the number of cars and motor buses operated. It is the company's policy to send a representative to call on every person making a complaint. The complaint is carefully considered, and in almost all cases settled to the entire satisfaction of all concerned. Very few complaints are [R. p. 490] received by the company as evidenced by those checked in 1939, when there were 159 received by company officials, nearly all either by letter or telephone. During this period, the company handled 94,079,683 passengers, which represents one complaint for every 591,700 handled.

By Mr. Moore: Q. Will you make a brief statement now about what the management is doing with respect to safety practices? A. Keen competition exists between the corresponding departments in the different districts in the matter of safety in operation. Banners signifying monthly winner in the "elimination of accidents" contests and frequent dinners to winners in the different districts are given by the company to help promote safety in the opera-

tion of transportation equipment and the maintenance of same.

Mr. Lester: Mr. Examiner, may I ask a question? Are you talking now about the transportation department or about the electric department also?

The Witness: I am talking now about the transportation department.

Mr. Lester: Thank you.

The Witness: (Continuing) Safety engineers employed in the electric department confer with representatives of the transportation department and, frequently, hold meetings with groups [R. p. 491] of employees in order to promote safety among the personnel. That is a matter that is done in the electric department, but all I am discussing here is the activities in the transportation department.

Q. (By Mr. Moore) Here you draw on the electric safety engineers, the electric department safety engineers, to help with that work in the transportation department? A. That is right. Records of each individual worker and operator are carefully prepared and recorded in order to determine those most "accident prone", and, as far as possible, to determine the causes of accidents in order to prevent recurrence.

Q. Will you now describe the Claim Department and its work? A. The Claim Department of the Virginia Electric and Power Company is a separate and distinct department, but works under the direction and supervision of the vice-president and general counsel with respect to all matters relating to the settlement or other disposition of claims and suits, and of the vice-president in charge of transportation with respect to administrative detail and office personnel. The Claim Department is closely connected to and coordinated with the Transportation, Electric and Gas Departments because of the mutual problems, particularly as to [R. p. 492] initial information regarding accidents and

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VIRGINIA TRANSPORTATION (Cont'd)

technical knowledge peculiar to their respective types of work. Through such cooperative action, the Claim Department more efficiently handles claims, and can and does help materially in the reduction of accidents. The Claim Department has two offices, one being in Richmond; the other in Norfolk. A General Claim Agent, with an office in Richmond, is in charge of the department, with a Claim Agent in charge of the Richmond office and one in charge of the Norfolk office. Both offices are adequately staffed, with employees trained in the work, including three men who have qualified to practice law. All suits growing out of accidents are, of course, tried by members of the Legal Department, but the Claim Department assists in the preparation and trial of these suits. Workmen's Compensation cases are handled by the Claim Department. Investigations of these cases are made by the department and all disbursements are made by it. Practically all Transportation Department accidents occur in the metropolitan areas of Richmond, Petersburg, Norfolk and Portsmouth and, naturally, the bulk of the work done by the Claim Department is in these districts. However, since the properties of the Electric Department cover, in addition to the cities named and a number of small towns, a wide rural section, not only in Virginia but in North Carolina, it is often necessary for members of the Claim Department to handle [R. p. 493] claims in these towns and rural communities. The local representatives of the Electric Department cooperate in every way with the Claim Department and materially reduce the work which would be necessary if these rural claims were handled by a representative of the Claim Department working alone.

Q. Has there been any public recognition of the company's contribution to the street railway industry? A. The Virginia Electric and Power Company, under the present management, won the Charles A. Coffin Award in the Transportation Department in 1928. This Award, a major

VIRGINIA TRANSPORTATION (Cont'd)

national award, was made by the Charles A. Coffin foundation through the American Electric Railway Association, now the American Transit Association. The winning of this national award naturally brought much satisfaction and enthusiasm to the entire organization, but what was perhaps even more gratifying was the local public interest and acclaim with which this honor was received in the respective communities served. In Richmond, a testimonial dinner was given the company by the Chamber of Commerce, following the winning of the Transportation award, the first recognition of this kind which has ever been accorded a public utility in this locality. The newspapers commented elaborately on the winning and commended warmly. Numerous other evidences of praise and encouragement were received in letters, etc. The Coffin Award established by the General Electric [R. p. 494] Company in 1923, in memory of its first President, Charles A. Coffin, is a gold medal and $1,000 in cash payable to the Employees' Benefit Association of the winning company. It is awarded through the national body of the transportation industry of the American Transit Association, to the company which has made the greatest contribution to the industry and rendered the biggest service to the community in which it operates. The following was the basis on which this award was made:

(1) Particular initiative, skill and enterprise manifested in popularizing electric railway service—more riders and more revenue.

(2) Outstanding success in gaining public goodwill.

(3) Economies introduced in operation, resulting from original ideas or the application of ideas originating with others.

(4) Improvements in construction practice which resulted in reduced first cost, reduced maintenance, or greater reliability of service.

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VIRGINIA TRANSPORTATION (Cont'd)

(5) Particular success in conducting a Safety program and actually reducing the number and seriousness of accidents.

(6) Outstanding accomplishments in the developments of relations between management and employee; and

(7) Special accomplishments tending to reduce the cost of new capital.

[R. p. 495] Q. After winning that once, is it very easy to win it a second time? A. No, it is not; I can testify to that from experience.

Q. Will you now state what the facts are in regard to the trend in passenger revenue? A. The cash and token fares charged on cars and motor buses in Norfolk are 10 cents cash—3 tokens for 25 cents. In Richmond, on most of the lines, the cash fare is 7 cents on cars and 8 cents on motor buses. On a few motor bus lines (unimportant ones) the fare is 7 cents, and in the case of one suburban line a 10-cent fare is charged. In Portsmouth and Petersburg, the fare is 7 cents cash, 4 tokens for 25 cents being sold. Recognizing that the regular user of cars or motor buses should be favored over the transient or occasional rider, the company in 1927 introduced in Norfolk an unlimited use weekly pass, for which it charged $1.50. In an effort to stimulate off-peak riding on both cars and motor buses, the company introduced in Richmond in 1931, a weekly shoppers' pass, good during off-peak hours, for which it charged 75 cents. Its experience with these two passes caused it to consider the more general use of the weekly pass idea. Believing that the sale of the weekly unlimited pass at $1.25 in both Richmond and Norfolk would stimulate car and motor bus riding, and help to hold regular car or motor bus riders by offering them the inducement of much lower cost per ride, depend- [R. p. 496] ing on number of rides taken, such $1.25 unlimited weekly passes were

VIRGINIA TRANSPORTATION (Cont'd)

put on sale in Richmond July 1, 1932, and at the same time the charge for the weekly pass in Norfolk was reduced from $1.50 to $1.25. On July 12, 1932, the 75-cent shoppers' pass was introduced in Norfolk. The number of $1.25 weekly passes sold per week in both Richmond and Norfolk has grown from approximately 7,200 per week during the fall of 1932, shortly after they were first introduced, to approximately 12,800 for the corresponding period of 1939. These figures speak for themselves as to the growth in popularity of the weekly pass. The 75-cent shoppers' pass has shown no such growth, but it tends to level off riding, reducing demand for extra rush hour equipment, as many people arrange their use of the cars and motor buses to take advantage of the off-peak shoppers' pass.

Q. Have you prepared a chart which shows the trend in passenger revenue, Mr. Jones? A. I have. This chart has been revised to include 1940 figures.

Mr. Moore: We now offer this as Engineers' Exhibit No. 39.

The Examiner: The chart is admitted in evidence under that number.

(Engineers' Exhibit No. 39 was received in evidence.)

(By Mr. Moore)

[R. p. 497] Q. Mr. Jones, this chart indicates what difference in passenger revenue at the end of 1939 as compared with December 31, 1940? A. The tabulation, Mr. Moore, has not been introduced. Do you wish to discuss the chart first?

Q. Have you prepared a tabulation that shows the total passenger revenue and pass revenue in the transportation department, year by year, from 1927 through 1940? A. I have.

Mr. Moore: We now offer this tabulation as Engineers' Exhibit No. 40.

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The Examiner: The tabulation is admitted under that number.

(Engineers' Exhibit No. 40 was received in evidence.)

Q. (By Mr. Moore) Now, Mr. Jones, will you take the trend chart, and also the tabulation, and point out to us the high spots? A. Well, I think if you will take the trend chart first, it definitely shows the falling off in passenger revenue from 1927 down to 1933 and how, since that date, it has slowly returned to a figure of $5,013,514 for the year 1940.

Q. This chart refers to the combined railway and bus revenue, making up what you call here the "transportation revenue", does it not? [R. p. 498] A. That is correct.

Q. Now direct your mind particularly to the pass revenue. A. It will be noted that in 1927 the revenue from the sale of passes amounted to $305,533, and for the year 1940 it amounted to $1,100,569, having shown a very definite upward trend since 1931.

Q. Have you any comments regarding the tabulation, Exhibit No. 40? A. The total passenger revenue in 1927 amounted to $6,050,169, reaching a low point in 1933 of $3,702,333, and rising to $4,016,622 in 1934; again dropping off in 1935 to $3,949,300, since which time it has shown an upward trend until, for the year 1940, the total passenger revenue amounted to $5,013,514. In that time the railway passenger revenue fell from $4,482,394 in 1927 to $2,443,816 in 1940, which the bus passenger revenue increased from $1,567,775 in 1927 to $2,569,698 in 1940.

Q. In your opinion, has there been any causal connection between the gradual building back of that total passenger revenue from the low point in 1933 to what it is today, by reason of your methods of merchandising the transportation and the gradual transition from street car to bus and in other ways which you have adopted? A. I think the improved equipment, plus the use of the [R. p.

499] pass are the two main factors outside of such small growth as has been regular growth in the community up until the defense activities picked up. It will be noted that the percent of pass revenue to total passenger revenue has increased from 5.05 percent in 1927 to 21.95 percent for the year 1940, a little over one-fifth.

Q. Will you now state how the book value of the railway property compares with the rate base value of such property, as determined by the State Corporation Commission of Virginia for rate-making purposes? A. The State Corporation Commission of Virginia for many years has had and exercised complete jurisdiction over the determination of the value of the company's electric, street railway and gas properties for rate-making purposes, over rates, extensions or abandonments of service, the adequacy of service, and other matters. In formal rate cases coming before the Commission during the period from 1918 to 1925, the Commission determined the value for rate-making purposes of the company's street railway properties in the cities of Richmond, Norfolk, Portsmouth and Petersburg and also the company's interurban railway property between Richmond and Petersburg. The sum of these valuations, plus all additions at cost from the respective dates of the valuations, less all retirements as of December 31, 1939, is $10,162,684. The railway book value as of December 31, 1940, was $10,251,529 and the railway rate base as of the same [R. p. 500] date was $10,110,828.

Q. Mr. Jones, in the determination of rates applicable to the company's railway department, has the State Corporation Commission fixed or approved this value and the rates in connection therewith on the basis of treating the railway department as a property separate from the electric property for rate-making purposes? A. Yes.

Q. So far as you know and believe, has there been any policy approved by the Commission, that is the State Commission, with respect to the fixing of rates for the railway

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department which takes into consideration any subsidizing of the railway department by the electric department? A. No. Ever since the Commission began exercising its jurisdiction in the valuation of the company's street railway properties and fixing the rates in connection therewith, it has proceeded on the basis of requiring each department to stand on its own bottom.

Q. Mr. Jones, are you familiar with the method which is in use by the company in estimating the depreciation on the transportation department properties? A. In determining the amount to be set aside for the depreciation reserve for the entire company for the year 1940, consideration was given by the officers of the company in the question as to the proper amount to be included with respect to the transportation department. Studies, which had [R. p. 501] been made, indicated that complete retirement of the railway property should be provided for over the next fifteen years, so that the depreciable property in the railway property account should be depreciated at the rate of approximately 6½ percent per annum. The company's street railway franchise in Richmond expires in August, 1956, or approximately 15 years hence. The principal street railway franchise in Norfolk expires in 1944. It is our belief that the City of Norfolk will permit the company to continue to operate the street railway in Norfolk after the expiration of its franchise, but it is our opinion that about the best that can reasonably be hoped for is that the operation of the street railways in both cities shall continue until the Richmond franchise expires in 1956. Our studies indicated that 1.86 cents per bus mile was the approximate correct figure on the buses, and on bus department property other than buses, 3 percent per annum. While there has been no segregation in the appropriation for depreciation reserve, or in the amount already accrued for depreciation, these percentages, applied to investment

VIRGINIA TRANSPORTATION (Cont'd)

in depreciable property, determined the proper amount to be included for depreciation for the transportation department. They are, in my judgment, fair and proper and should be used in the future unless experience indicates that they should be changed.

Q. Mr. Jones, your testimony thus far has in the main been with respect to the period ending December 31, 1939. Will [R. p. 502] you now state what are the more important changes which have been made in the facilities of the transportation department during the year 1940? A. As a result of defense activities in the territory served by the transportation department, there was a more than normal increase in the population served during the year, especially in the Norfolk-Portsmouth area, making desirable some slight changes in bus routes. The changes in bus routes were of no great consequence, and the map, showing these routes as of December 31, 1939, would not have to be altered materially, to bring it up-to-date. Increased passenger traffic in the territory served made necessary the acquisition of some additional cars and buses, the net increase for the system being twenty cars and twenty buses. Nine additional street cars were overhauled and modernized in the company's shops during the year. The motor bus repair shop in Richmond was enlarged during 1940 by the construction of an additional wing. The motor bus repair shop in Portsmouth was enlarged and now has sufficient capacity to properly service the motor bus equipment used in Portsmouth. Following the death of the General Manager of Transportation, Richmond, during the year 1940, a few changes were made in the operating organization, and the position which he held was abolished.

[R. p. 503] I believe that the matters which I have just referred to cover the more important changes occurring during the year 1940.

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VIRGINIA TRANSPORTATION (Cont'd)

T. NORMAN JONES

Cross Examination

(By Mr. Fischgrund)

[R. p. 526] Q. Are there any privately owned railway or bus companies [R. p. 527] which operate in the area served by Virginia Electric and Power Company with electricity other than the company's railway and bus systems? A. Is there a combination electric and railway in our territory, is that your question?

Q. No. Are there any railway or bus systems in the company's electric service area that are privately owned other than the company's own transportation system? A. In Petersburg, there is a small bus operation. I think they have two busses that operate, partly in the city and partly outside of the city. There are two bus operations operating between Petersburg and Hopewell. One is a successor to a railway company and the other has recently been authorized to operate—I said to Hopewell—it was to Camp Lee. It was recently authorized to operate to Camp Lee and they have, I think, one bus on that line. In Portsmouth, there is an operation from the heart of the city, we will say, for a considerable distance out into the country. They operate in territory almost entirely lacking in service, as far as our operations are concerned and, in the city, I understand that they do handle passengers but the line passes through a section of the city in which there are very few people. There are several bus lines operating out of Portsmouth, to Suffolk and other points. The same thing is true in Norfolk. Bus lines operate from Norfolk to Virginia Beach and other points. [R. p. 528] In Richmond, there is a bus line operating from the heart of the city to Seven Pines. I don't think that they ever handle any passengers locally. There are one or two other bus operations aside from the inter-city operations operating from the city into suburban sections not served by the company.

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VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 545] Q. Now referring, Mr. Jones, to the general storeroom, that is a storeroom that is in one of the transportation buildings that you referred to earlier? A. Yes.

Q. And the company has certain accounting records and other equipment in it, is that correct? A. No. The building in which the accounting records are [R. p. 546] stored is a part of the building that at one time, many years ago, was a storeroom but that particular portion of the room has been vacant up until its occupancy by the accounting department. There is a storeroom in the distribution building in which there is a joint electric and railway and I think some bus supplies.

Q. Is there any reason why the electric supplies have to be in that particular storeroom rather than in one of the other buildings of the electric department? A. It is more conveniently located in that building on account of the fact that the trucks, wagons using that material are stored in the building immediately adjacent.

Q. What is it that the electric department stores there? A. They have a variety of materials, transformers, cross arms and wire, things of that kind. You understand that storeroom is in the distribution building of the electric department.

Q. And the transportation department uses that storeroom in the electric department's distribution building? A. That is correct.

Q. What does the transportation department have in that building? A. Some of the repair parts used in connection with the operation of the railways, cars and buses.

Q. Couldn't those parts just as well be in the repair shop or one of the other transportation buildings? A. We do have storerooms in our shop buildings in which [R. p. 547] considerable material is carried but this is material that is requisitioned more in the package form. In the storeroom in the shops, the packages are broken and then kept until used in the storerooms.

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T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. But those packages could just as well be stored—
A. (interposing) They could be stored in other buildings.
Q. In transportation buildings? A. Yes.

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[R. p. 567] Q. Mr. Jones, in your opinion, is there any relationship between the business of transporting people in busses in Petersburg and in supplying electricity in the city of Petersburg? A. No relationship as between a bus and electric operation. That is——

Q. (interposing) They are entirely different problems?

Mr. More: Let him finish his answer.

The Witness: There is a very definite, as I see it, relationship existing between the serving of Petersburg with transportation and the serving of it with electricity under the conditions that exist. We started out serving railway service there and I don't think that we would have been allowed to change over from railway to bus if it had not been for the fact that the city authorities expected us to continue the bus operation. They have been very insistent when the question of changing from railway to bus came [R. p. 568] up to know whether we were going to continue to operate it and our ordinances under which we operate, I think without exception, make it necessary for us to continue our entire bus operation as long as we operate it, either of our own accord or with the city's authority and that we are not allowed to part with any part of the operation of busses.

Q. (By Mr. Fischgrund) But your transferring from railway to bus in Petersburg had nothing to do with the fact that the company was engaged in the electric business? A. No, but I do not think we could have transferred from railway to bus as long as the railway was being operated by the electric company unless we had agreed to operate busses.

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T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 568] Q. Well, any company that would have been operating a railway system in Petersburg and wanted to change to bus would have been required to continue to operate busses? A. I think that is true.

Q. So that requirement was not peculiar to the company being engaged in the electric business? A. Well, there is no relationship between the serving of a customer with electricity for light and power and hauling a passenger on a car from that standpoint but the interrelationship [R. p. 569] of the railway with the electric company, a strong electric company operating a railway which was not regarded as being so strong, would cause the city to hesitate about letting us get out of the railway business unless they had some assurance that adequate bus service was going to be furnished.

Q. Then the city was afraid that adequate bus service might not be furnished because it realized that the transportation business was not operating at a profit? A. Well, I think that the city's attitude is that it would much rather have a financially strong company operating its transportation business than to have a transportation company, as such and strictly as such, operating it unless, of course, they knew it had adequate backing.

Q. But if the railway system in Petersburg had not been owned by the electric company, that independent railway system in Petersburg might have been able to fold up, but that since— A. (interposing) Might have been able—I beg your pardon?

Q. (continuing) But that since the railway system was owned by the electric system, it was not able to fold up but had to carry on in the bus business, is that what your thought is on the matter? A. Well, I think an independently operated bus system in Petersburg today, if it could not make a go of it, would do just what you said, fold up. [R. p. 570] Q. But the electric company cannot fold up its

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VIRGINIA TRANSPORTATION (Cont'd)

bus operations in Petersburg? A. The electric company can fold up its bus operations at, I am sure, the time its franchise expired, whenever that was in Petersburg, but I don't remember the date.

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[R. p. 575] Q. Is it true that the duty of the dispatchers in the transportation department is to send out and reroute street cars and buses? A. They would do that in an emergency.

Q. What is their normal function? A. They see that the men report on time, take their cars out, that an adequate number of men are available; and if there is any shortage they call up and get additional men; they check the service to see that it has been performed, that the runs have been made; see that the men are properly credited with the time that they have made on their runs; and they generally supervise the operation of the cars in and out of the barns, and if any trouble develops on the line, they see that a car is sent [R. p. 576] out to take the place of it, or a bus, as the case may be.

Q. As particular passenger traffic requirements may arise, they do send out more street cars and buses than is normally required? A. Well, the superintendent takes care of that in the regular way. If any emergency arises, the dispatchers wouldn't hesitate to send out any additional equipment that might be needed, but the superintendent is responsible at the terminal for seeing that a sufficient number of cars and men are available to go out on the runs.

Q. Then the dispatchers who are out in the field, on the strategic corners, call in to the superintendent when more cars or buses are needed? A. No, those are supervisors out in the field.

Q. And they are the ones that call in for more cars and buses? A. If there is a breakdown, for example, at any particular location, a supervisor, as soon as he gets to the

T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

scene, determines what is the need, if there has been an accident, and he will see that the line is properly straightened out, and will telephone in for an additional bus or car. If he doesn't happen to be present, the operator will telephone himself and advise that there has been a breakdown or an accident, and as promptly as we can reach one, a supervisor is on the scene, and he straightens out the schedules, sees to it that the cars don't run in bunches, and come back in bunches, [R. p. 577] that they are properly spaced, as quickly as the spacing can be arranged.

Q. In other words, you just have a fixed schedule, and if there are abnormal traffic requirements, there are or are not more cars and buses sent out to meet the increased traffic requirements? A. Well, the fixed schedule requirements are changed seasonally, as I mentioned in my direct testimony. Any particular event that may make necessary the operation of additional cars and buses, we will say a circus comes to town, that of course isn't figured in the regular schedule, but we know that a certain number of cars and buses will have to be added to a certain line, and the superintendent checks with the supervisors and the dispatchers and they arrange for additional equipment to go out as the case may require.

Q. The dispatchers arrange for more equipment to be sent out, or the superintendent? A. If the superintendent isn't present, and a supervisor calls in and says, "We find we are going to need more equipment this evening on a certain line", on account of some event that has developed, the dispatcher would not hesitate to get the additional equipment out, even though the superintendent might not be present. The superintendent and the dispatchers are located in the same building, on the same floor, in adjacent offices, and the supervisors are out in the field.

[R. p. 578] Q. These men, that is, the superintendents, dispatchers and the supervisors, are, for the most part, men that have come up from the ranks as motormen? A. That

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is right, most of them have had experience on the cars or buses.

Q. Now, you referred, Mr. Jones, to certain shopping passes? A. That is right.

Q. During what hours are those shopping passes good? A. Between 9 and 4, I think it is.

Q. Why are they limited to those particular hours? A. Well, the idea of a shopping pass is to interest the individual who does not have to ride during the rush hours and to interest him in riding during the non-rush hours. In that way, we keep down to a minimum the extra equipment that has to be operated during the rush hours, a. m. and p. m.

Q. Would you say that the sole reason why those hours are chosen is to even out the passenger traffic on the railway and the buses in the use of equipment? A. That is the principal reason for the hours, the lower rate is designed to keep people from riding during the rush hours who can ride during the non-rush, when there are plenty of seats available.

Q. Is there any other reason why those particular hours were chosen for the shopping pass? [R. p. 579] A. No, none that I know of. They are good from 9 to 4, and then I think it is from 6 or 6:30 to midnight.

Q. Now, you referred to certain schedules which the company has. Is it true that these schedules are set up on the basis of the amount of the passenger traffic over the various routes? A. Well, they are set up as accurately as we are able to set them up, to care for the needs of the traveling public, as we see them.

Q. That is the basis upon which the schedule is set up, the traffic needs of the public? A. The traffic needs.

Q. Are there any bus routes over the streets on which you have tracks for street cars? A. We have one in Richmond, or two in Richmond, on which we have tracks.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Why do you have buses running over the same routes where you have street cars? A. We inherited one of those lines, took it over in 1922, I think it was, from the Richmond Rapid Transfer Company, and the only other line that runs on that street is a line that does a local business in the suburbs of the city, and then when it strikes Broad Street runs express from there down. There are some other short sections in the retail section where bus lines from the outlying districts come in and parallel or operate on the [R. p. 580] same as car tracks. But in so far as it is practical to do it, we do not operate them that way.

Q. Then, for the most part wherever you have tracks on a street, you use street cars? A. That is right.

Q. And where you have a special event, or a heavy load at any particular place, the superintendent or the dispatcher would send out a street car if there were tracks on the street where the load is, and if not, would sent out a bus? A. Ordinarily, that would be true. He might find it convenient to route certain extra buses into that particular territory if the traffic was unusually heavy.

Q. I want to see if I correctly understand the dispatching operation, Mr. Jones. Is it correct that where the company has tracks on its routes, in only rare cases are buses used, and that when more street cars and buses are required in a given locality, whether a bus or a street car is sent out depends upon whether the street has tracks? A. It would not necessarily be that we would send either all rail cars or buses. If the event that requires extra service is so located, that both are needed, we might send cars and buses both.

Q. Whether you send both or not depends upon the needs of the particular event? A. That is right.

[R. p. 581] Q. Who does the superintendent consult with, if anyone, before he sends out a street car or a bus? A.

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VIRGINIA TRANSPORTATION (Cont'd)

The superintendent sends a car or bus on his own responsibility, if it is an extra bus or extra service of that kind. If the schedule is being changed, he would consult with the manager of his district, perhaps, in determining the nature of the change, because that is something that involves pretty regular service, and we would all want to be sure that every consideration was given to adequate service. Ordinarily, if he is in the office and finds, we will say, that a circus has come to town, maybe he will say, "Well, from our experience with that circus in the past, we will probably want a certain number of cars to be sent to a certain location that night at a certain hour." He will give that order to the dispatchers and the cars are sent out. That is all there is to it.

Q. When the superintendent sends out a street car or a bus, he doesn't know what the power factor or the load on the electric system is, does he? A. He knows nothing whatever about that.

Q. And your schedules are based upon the passenger traffic requirements and not made in consultation with the electric department as to the power factor? A. No.

Q. And whether or not you run a street car or a bus over [R. p. 582] a particular part of the line at a given time of the day, it never varies depending upon what the power factor or electric load is? A. It never is taken into consideration.

Q. There is no common dispatcher of electric energy in the electric system with the dispatcher of the street cars and buses in the transportation system? A. No, indeed.

Q. In fact, the transportation department never knows what the electric power factor is? A. The transportation superintendent knows nothing about that whatever,——

Q. (Interposing) If he did— A. (Interposing) Unless he should learn it in the most casual way by talking to somebody. But it isn't part of his business to know it.

T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. If somebody did tell him what the power factor was, he wouldn't know what it meant, would he? A. I doubt if he would.

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[R. p. 605] Q. Now, Mr. Jones, you testified about the replacement of street cars with buses, do you recall that? A. I do.

Q. What in your opinion is the real reason for the rapid replacement of street cars with buses in the case of the Virginia Electric and Power Company? A. Well, the replacement that has been made has been very largely brought about by the fact that tracks were worn out and it was either a case of replacing the rail service with buses or again making a very heavy investment in tracks, and the decision was to abandon the rails, if the City would agree—which they did, and the Commission agreed—and substitute for that rail service bus service which involved much less investment and which ultimately we believe will result in a [R. p. 606] smaller transportation investment that will be more profitable.

Q. In other words, it requires so much more investment to run a railway than a bus that the street cars can't compete with the buses? A. Well, the performance of the service with buses presents the opportunity to decrease your investment materially and to earn a higher return on your investment in buses, decrease your investment in railways, and earn a higher return on your investment in buses, and that is what we look forward to in the working out of our railway system, its gradual salvaging as occasion requires, operating just as long as we can to get the maximum amount of salvage out of it from the standpoint of earnings, with the thought that ultimately it will go into bus operation and we will have a small investment on which we can make, we hope, a very good return, as much as the Commission will permit.

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VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 608] Q. (By Mr. Lester) Don't you anticipate that many more railway lines will be abandoned before 1956? A. Of course, that is speculation, but my thought is that with the exception of a few lines——

Q. (Interposing) In congested areas, perhaps? A. No. —a few more or less auxiliary lines, the main lines will continue to operate for many years. Now, we have taken out of our system quite a number of the outlying lines that have worn out, and we have put buses in place of them. In one or two cases, paving obligations made it a desirable thing to do, and we did it. But we have reached the point now where we have got a kind of a heart left to our transportation system. For example, in Richmond we have Main Street and Broad Street, which you probably will remember, two through trunk lines that run right through the City. Now, we have several lines feeding into those lines, and [R. p. 609] using those tracks, and I don't think that those tracks are coming up for many years, and I am very hopeful that we will be able to keep them down until the franchise expires, because in the main those tracks that run into these trunks are in very good condition. Now, in Norfolk the situation is very similar. The three main lines that run out, two to Ocean View and one to the Naval Base, are lines on which there is a great deal of very heavy traffic. It comes down into a kind of bottleneck; as you remember, Granby Street is in the retail section of Norfolk, and I just don't think that the City of Norfolk is going to say for us to take up those tracks and increase the number of vehicles passing through that bottleneck when what they are trying to do is find ways and means today of relieving the very badly congested condition in that section. So I am very hopeful that we will be allowed to continue the operations as I have testified.

Q. (By Mr. Fischgrund) I believe you testified on direct examination that changes that have been made from rail-

way to bus have been after negotiation with the City and State Commissions? A. That is right.

Q. And do you find that the City and State Commissions are desirous of the change from railway to bus? A. I don't think that the Commission has expressed itself [R. p. 610] on that subject, other than to give its approval where asked. As far as the City of Richmond is concerned, I know the City Engineer has very definitely in mind the construction problems that confront us between now and the expiration and the franchise. Now, whether or not the Norfolk city fathers are going to let us go beyond 1944 or not, I don't know. I can only say that we have found that they have been very reasonable in cooperating with us and in working over changes, and I think they will continue to be.

Q. You are hopeful that the city authorities will permit you to continue in the railway operations, but is it true that the city desires the replacement of the railway with bus? A. Well, we have no official expression from the city on that subject. There has been talk,—there was some talk sometime ago in Richmond about the desirability of taking up all tracks on Broad Street right away, but it was quickly realized that the company had a franchise to operate for 15 years approximately longer, until 1956, and the matter was just dropped.

Q. But from your negotiations and discussions with the city authorities, it does appear that they do desire the change from railway to bus, or do they desire that there be no change? A. I don't know if the city authorities were approached today, and went into it, whether they would ask us to change over or not.

[R. p. 611] Q. (By Mr. Lester) Turning to that congested area, a street car takes more room than a bus, does it not? A. But it hauls a great many more people.

Q. I just wondered—take the Granby Street, for example, if the tracks were pulled up and that space allowed

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T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

for traffic, I was wondering whether the buses wouldn't be more efficient than street cars? A. Well, the problem there is that you would have the bus pulling into the curbing and then pulling out into the stream of traffic constantly causing interruptions to the flow of traffic. Then you must bear in mind that probably one third more buses would be required than cars, which would mean just that many more buses in a congested district, flowing in and out of this traffic stream. So that from the standpoint of a bottleneck, a car is a much less troublesome factor than a bus would be.

Q. In the case of South Broad Street, in Richmond, you have a rather wide street, haven't you? A. Quite wide.

Q. With a double track in the middle? A. That is right.

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[R. p. 615] Q. The company changed its depreciation policy in 1939, and commenced then to charge 6½ per cent of the railway property account to depreciation? A. 1939 was the first year in which 6½ per cent, I think, has been considered.

Q. And that was a substantial increase in the amount of the accruals to the retirement reserve over the previous amount? [R. p. 616] A. That was, I think, in recognition of the fact that the rails would probably be abandoned at the expiration of 1956, the 1956 franchise.

Q. If the company was aware of the fact, and recognized as early as 1930, and before, that railway operations were on their way out, why did it first in 1939 install a depreciation policy to take care of the salvaging of the railway property? A. Well, the retirement reserve method that had been in effect was a reserve against which charges were being made when railway lines were being abandoned, and the fact that it had a reserve set up was responsible, I suppose, for not having set up any specific amount beyond what was going into it in a lump sum.

T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Would you say that the accruals to retirement reserve during the years before 1939 were adequate to take care of the gradual abandonment of the railway property, assuming that the company were to get out of the railway business by 1956? A. Well, I don't know, I can't speak for the management's thought on that subject, but I do know that my own thinking—and I have, I reckon, done about as much of it as anybody else in connection with the property on the probable future of the business—in my own thinking I have had the feeling that if we would get anything like the 6½ per cent, or a smaller sum if any portion of the present reserve were allocated, that we should be able to retire the major portion of the investment in railways by 1956 without having to draw heavily on the surplus. [R. p. 617] But so many factors are involved, that I can't say definitely of course what would be the effect in 1956 of abandonment at that time, so far as surplus is concerned.

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[R. p. 621] Q. Then why did the company change its depreciation policy in 1939 to increase the amount of depreciation accruals in the case of the railway property? A. I think it is in recognition of the fact that in all likelihood they are not going to have but about 15 more years, until 1956, to get rid of it, and they wanted to be sure to set up enough in that time to cover it.

Q. And that wasn't adequately recognized in the years before 1939? A. Well, in 1939 and 1940, I think those figures were used that you have reference to, and prior to that time there was a common reserve. Now that common reserve, as I understand, has eventually got to be broken down on the direction of the [R. p. 622] Federal Power Commission, but as I understand it, the Power Commission is waiting for further studies before it makes that requirement, and what will be done with the reserve at that time I don't

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know. If nothing comes out of it for the railway, it is probably going to mean that 6½ per cent will be somewhere pretty close to the amount that is needed to adequately prepare for the end in 1956.

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[R. p. 624] Q. (By Mr. Fischgrund) I believe you testified on direct examination, Mr. [R. p. 625] Jones, that the State Commission felt that each department of the company should stand on its own bottom? A. That is my understanding of their position.

Q. I believe you also testified that in the State Commission fixing the railway rate base, it considered and included certain property that was used exclusively by the railway, or for the railway, in its operations, and that was carried in the electric utility plant account? A. No, not just that. I said they considered the amount of property that was used in rendering service to the railways. I did not say that they put that amount in the railway rate base.

Q. But they considered the property within the electric utility plant account and used only by the railway, in prescribing— A. (Interposing) My understanding is that they considered the property in the electric plant account that was used in rendering service which provides the energy used by the railways.

Q. But they didn't require a change in the way the property was carried on the books of the company? A. No, I never heard that they required any change of that kind at all. I think that the Commission took into consideration that situation in fixing the value of the property in the railway plant account, and that it definitely is not in that account, it is in the electric account.

Q. Then, so far as such property is in the electric account, and used exclusively by the railway, the departments are not [R. p. 626] each resting on their own bottom? A. Well, if the Commission is familiar, as it was, with the

equipment that was used, and the value of the equipment used, I presume they took that into consideration in the rate of return that they were allowing the company to make on its investment. But they were aware of it.

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[R. p. 628] Q. (By Mr. Fischgrund) Mr. Jones, if you owned the transportation properties yourself, wouldn't you operate them just as efficiently as they are operated today? A. I would hope to do so.

Q. Is there any reason why you wouldn't be able to do so? A. Well, I think we have undoubtedly had the benefit of a number of experienced men, rather than operating with only one man's experience and ability. Two heads are better than one, and a broad experience has been an advantage to us, I think, in connection with our operations.

Q. Don't you think that you have had enough experience in utility operations, transportation operation, to operate the transportation department efficiently? A. I think I could operate the transportation properties efficiently, but I wouldn't say that the benefit of consultation with others who have had broad experience in not only transportation but in labor problems, construction and finance, that I wouldn't be able to get a great deal of help from those who are associated with me in it.

Q. You would consult back and forth anyway, even though you might own the transportation property yourself? A. I don't know about that, whether I would have the benefit of their ability.

[R. p. 629] Q. Aside from that— A. (Interposing) If I owned it, I certainly would want very much to have the benefit of their ability, even if I had to pay for it.

Q. Aside from that, you could operate the transportation property just as efficiently and well as it is operated today? A. Well, I would say that I believe I could operate it efficiently. Now to say that I could do it as well as it is

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being done today, I wouldn't say that because I have had the benefit of the advice and help of experienced men in the broad general field of work, on labor policies, equipment and so on, and I would feel that it would be a bit conceited to say that I could do it just as well without the benefit or experience of any of those men who have had, in some cases, as many years or more than I have had in the field.

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[R. p. 630] Q. (By Mr. Fischgrund) Mr. Jones, do you recall testifying as to the study of the allocation of the expenses that you made in 1933? A. I do.

Q. What prompted you to make that study of allocation of expenses? A. My knowledge of the general conditions that confronted us, and the fact that the executive staff, and nearly everybody except those who at that time tied in directly with the railway, were trying to build up a big electric business and they were working on it without end, and it didn't seem to me that a transportation department—I at that time had no portfolio, I was studying general conditions—it did not seem to me that the transportation department, which was not doing any growing and its business was less than it had been as a whole, and with [R. p. 631] a railway department that definitely was not going to expand, as I saw it, but on the contrary was engaged in taking up its tracks and replacing those operations with bus operations, as favorable opportunities presented themselves—it didn't seem to me that the transportation under those conditions should be forced to bear a charge which, to my way of thinking, was very much out of line, as I testified Friday, with the real value of the services that were being put into the operation of the transportation system by the general officers.

Q. In other words, the reason that prompted you to make the study was that you felt that there was an unfair allocation of expenses between the departments in 1933? A. That is correct, that it had been unfair.

VIRGINIA TRANSPORTATION (Cont'd)

Q. What made you realize that it had been unfair, the mere fact that the officers were devoting most of their time to the electric department? A. The fact that it seemed to me that the electric department was not only growing, but growing rapidly and consuming the major portion of the time, by far, of the officers of the company, and of the general staff having to do with the property as a whole. There was a tremendous amount of time being devoted to making new contracts with cities, communities, and establishing new rates, getting franchises, and work of that kind going on, and extending new lines out into new territory, continuously, and there was no such growth as that going on in the railway [R. p. 632] department, it just wasn't growing. On the contrary, as I have said before, the tracks were being gradually taken up and it just didn't seem to me that there was any sense saying that it was fair to allocate the expenses on the basis of gross, under those conditions, when I saw where the work was being directed.

Q. The reason that the officers were devoting most of their time to the electric operations was that they realized that any real source of net income for the company would have to be out of the electric operations? A. Well, I think they realized that there was a business that had not only a tremendous future, but was making tremendous demands on them, as well as the efforts that they were making to build it up. More and more electrification was being required, and demanded, and the company at the same time was making every effort, through its merchandising and sales end, to expand its business and to increase its consumption, and was meeting with a great deal of success in that direction. I had particularly been interested in it because back in 1929 I devoted very nearly a full year to working with engineers, outside consulting engineers, in studying the costs of producing a kilowatt hour in different classes of business, and out of that we developed, first a residential rate, which was most productive in increasing

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T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

business. So I was familiar with the fact that we had a promotional rate [R. p. 633] that was bringing in business, and we were making a drive to get business, and we were successful in it, and being successful, and the amount of time being devoted to railway operation was just not at all comparable on a basis of gross earnings because the transportation business, as such, was not growing that way.

Q. And the reason that they devoted so much time to the electric operations was because they realized that in light of it being a growing business, and in light of the fact that the railway business was on its way out, any real source of net income in the future would have to come from the electric operations? A. Well, I think they realized that there was where the big source of net income was to come from, and that the operations of the railway and bus were being carried on as efficiently as could be under the conditions where there was no great growth in it; as a matter of fact, the earnings were declining at that period, and had declined.

Q. Nor was there any net of any significance out of the transportation operations? A. The net after taxes had decreased too. There was still a net, but nothing like what there had been.

Q. But no significant net? A. I would say it was a significant amount. But the electric business, there isn't any question about it, was [R. p. 634] obviously the growing business, and that is where the major portion of the time of the executives and the others interested in the development of the business, was going, it couldn't go anywhere else because they were being forced to meet the increased demands for business, and we were trying to build up the business, we had a multitude of rates back in 1929, and we had gradually gotten those out until we had quite uniform rates throughout the State.

T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. And the officers were concerned very vitally in obtaining as much net income as they could out of the company's operations? A. Naturally.

Q. And in the case of the transportation department, they realized that there would be no increase of net, nor was there any substantial net after depreciation and taxes? A. No, I would say that the approach to it was that there wasn't very much that you could do to build up the transportation department, that growth there is rather a matter of business activity in the community. There isn't much that you can do to improve it yourself, but you can go out and hustle and get electric business, and that is what we were doing.

Q. When you made that study of the allocation of expenses, you recognized that one way to keep up the net income of the electric department was to keep the rates up, did you not? A. Well, I had been working right hard trying to get rates [R. p. 635] lowered, and we had made many changes in our rates in that direction, as of that date, lowering the rates in the electric department.

Q. To get more customers? A. Yes, to make the service more attractive and sell more energy.

Q. And as a result— A. (Interposing) Sell more energy.

Q. And obtain more net income? A. That is right.

Q. But you also recognized that if the rates went down too low in the electric department, it might have a very adverse effect upon the net income? A. I haven't had any experience with that. We have lowered the rates many times and we have been able to build up the business in a very satisfactory manner.

Q. And it is also true that the expenses of the electric department have a very vital effect upon the rate charged for electricity? A. They do.

Q. And likewise, the amount of the electric utility property account has a very vital effect upon the amount of the rates that are prescribed? A. It does.

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T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. And if the electric utility property account showed [R. p. 636] more property in it than was actually used or necessary for the electric operations, it might have the effect of keeping the rate up? A. It would.

Q. And likewise, if the department showed more expenses than actually existed, it might have the effect of keeping the electric rate up? A. It would.

Q. And the result of your allocation or change in allocation of expenses was to increase the proportion of the expenses of the electric department, and decrease the expenses of the transportation department from, I believe 27 per cent to 17 per cent, or something on that order? A. I forget just what the figures were, but they are the figures I gave you Friday.

Mr. Moore: 27 per cent to 17 per cent.

By Mr. Fischgrund:

Q. It is your opinion, Mr. Jones, is it, that the present method of allocating expenses between departments is fair? A. It is. I think it is much fairer than the gross base in the light of my knowledge of the time and attention and ability devoted to that business, as compared with the electric business in our company.

Q. But in your opinion, the present method of allocating expenses is not fair but merely fairer than the former one? [R. p. 637] A. I don't know that there is any possible way, certainly none that I know of, to determine accurately how an allocation should be made or can be made. There has got to be a certain element of judgment that enters into it and a certain amount of general application of percentages.

Q. Now in allocating expenses on the basis of net operating revenues, the proportion of such net revenues to be applied during any given year is based on the amount of the department's net operating revenues during the preceding year? A. That is right.

T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. And the first year you put this method of allocation into effect you used the ratio that existed during the preceding year of gross operating revenue, is that correct? A. On the determination of the net allocations in 1933, we used the figures based on 1932.

Q. That is the net operating revenues in 1932? A. That is right.

Q. And the net operating revenues in 1932 included the expenses that were allocated on the basis of the gross figures? A. That is right.

Q. And you testified that you believed the gross figure was unfair? A. I said that I believed that the gross figure was unfair to the railways and the net figure was a fairer figure than the gross.

[R. p. 638] Q. Well, doesn't it necessarily follow, Mr. Jones, that if the gross figure is unfair or out of proportion, that the net figure during 1932, which was based upon expenses during that year, which was obtained on the basis of a gross figure, likewise was necessarily unfair in that the company had less net, or the department had less net, than it should have had, because the net was based upon, or obtained after, deduction of expenses which were obtained from gross figures? A. There may have been some difference there, and I think there probably is, and I don't want anything that I have said to indicate to you that I have said or have implied that I think that every charge that is made on this basis is a correct charge. I do say that I think it is a fairer method than the gross basis method, and that a reversion to the gross method would be a return to that unfairness. Now my individual time, on the net basis, is allocated against—a substantial portion of it, way in excess of half—the electric account, but I think, when you take all of the officers together, and the amount that is allocated against the transportation department, it is today in excess of what it really is, as a matter of actual services put into the transportation department.

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T. Norman Jones, Jr.—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. Now isn't it correct, Mr. Jones, that the net figures that are obtained during any given year are based upon the proportion of the net operating revenues of the department to the [R. p. 639] company's net operating revenues during the preceding year? A. That is right.

Q. And when we go all the way back to the first year that the system was installed, we find that the net operating revenues during 1932 were based upon, or obtained after, expenses which were obtained on the basis of gross figures? A. For 1931.

Q. And therefore the net operating revenues during 1932 necessarily, as a matter of logic, are not a fair method or a fair proportion for the basis for allocating expenses, using your statement that the gross is not fair and that the net is fair? A. I never said that it was an accurate method.

Q. Isn't it necessarily as unfair as the gross figures, since it is based upon figures which were obtained from the gross figures? A. May I read what I said Friday?

Q. I believe that is in the record, I would prefer that you would answer the question? A. Will you read the question, please.

(The question is read.)

A. I don't think it is unfair, it is not accurate and I haven't claimed that it was.

Q. It is correct, is it not, that the transportation department is charged for electricity that is used by it on the [R. p. 640] basis of the so-called switchboard cost? A. I think that is true, except that some transmission line cost is in there.

Q. That switchboard cost consists of the fuel cost, the labor cost, and the miscellaneous supplies, is that correct? A. I think those are the principal items that go in, and some transmission costs.

Q. Are you sure that the switchboard cost includes transmission cost? A. My understanding is that it has

some transmission cost in it, sir, I don't know just how much.

Q. But it doesn't include the cost of the investment in boilers or generators? A. No, it does not.

Q. It doesn't include depreciation and taxes on the powerhouse equipment, even though they may be used only for the railway department? A. It does not, as I understand it, include any depreciation or taxes.

Q. It doesn't include any distribution losses? A. The total figure in kilowatt hours that is paid for, as I understand it, includes conversion losses.

Q. But not distribution losses? A. I don't know whether there is any distribution loss in that figure or not, I can't answer that.

[R. p. 641] Q. Does it include any charge for the use of feeder lines? A. I think the feeders are, some of them certainly, in the railway plant account, I don't know how many. Last year we had I know a charge against feeders on account of the changes that we made in them, in the railway account.

Q. Well, aside from the d. c. feeders that the company has, does the switchboard cost include any charge for the use or the investment in a. c. feeders that are used in connection with the supply of current to the railway department? A. I do not understand so.

Q. The switchboard cost doesn't include the cost of investment in transmission lines to the substations, does it? A. I think the transmission line end of it is the maintenance end.

Q. But not the depreciation on those transmission lines either? A. I do not understand that there is any of that in there.

Q. Do you know how much the switchboard cost amounts to per kilowatt hour? A. I do not know the exact, I think Mr. Mitchell had it here last week.

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VIRGINIA TRANSPORTATION (Cont'd)

Q. Do you know about how much it is? A. It is three and a fraction mills, a small fraction. [R. p. 642] Q. Do you know how many kilowatt hours were used by the transportation department during 1940? A. As I recall it, the figure was some 34,000,000 kilowatt hours.

Q. Do you know what the wholesale rate of the Company is for the sale of energy per kilowatt hour? A. There are quite a number of rates, but none applicable to a railway such as we operate. No rate has ever been filed covering it.

Q. Do you know on what basis the energy that is sold to a railway by an electric company, where they are not owned by the same company, is figured? A. I can't cite you any particular company, but I think that undoubtedly the rate that would be charged would be one, unless some very special condition existed, that was probably higher than the rate that is being paid by the transportation department for its energy today.

Q. It would probably be the wholesale rate or something like the industrial rate? A. It would probably be a specially filed rate to cover the transportation company's requirements. These companies are not very numerous, there is usually only one railway company found in a community, and there may be some companies that have more than one rate, but I would say that for a company the rate would probably be developed to the definite requirements of that [R. p. 643] company.

Q. Is it not your opinion that a proper rate, that is a proper charge to the railway department for the electricity furnished it, should include depreciation and interest on investment and taxes and other such items? A. I think that a rate designed to produce a profit would include depreciation, taxes and interest.

Q. Well, if it merely included the switchboard cost plus depreciation, taxes and interest on investment, then there wouldn't be any profit from selling energy to the railway on

that basis, would there? A. That would cover the interest on your investment that you actually had, plus your depreciation and taxes and your switchboard cost, that would cover your flat production cost without including a profit.

Q. And don't you think that that is what the charge to the railway department for the use of electricity should be? A. Well, you have got to take into consideration the conditions under which we have operated, with many joint facilities available to each company, the fact that the transportation department has furnished free transportation, for example, to all of the employees of the electric department. That is a very considerable offset in our thinking, my thinking certainly. We had, or rather the transportation department furnished substantial benefit to the electric department in the [R. p. 644] use of its pole lines and its rights of way, and overall it seemed to me that inasmuch as there was no object in making a profit out of the transportation department, if the different items offset each other substantially, that that was about all right.

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[R. p. 658] (By Mr. Lester) The passes that the Transportation Department provides to the employees of the other departments are not necessary for the functioning of the other departments, for the employees getting around to carry on their business,—isn't that true? A. The passes could be taken away, and they would still find ways of getting to and from their business, or to the [R. p. 659] places they have to visit, but if you took those passes away from the employees, and as I said, those passes are considered part of their compensation, I think you would have to compensate for it.

Q. The passes are not given to the employees in order to enable them to get around on the company's business? A. I don't know whether that is true, because originally they were issued at a time when there were no automobiles and

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few buggies, and I imagine when the practice of issuing passes first started, it had a very direct relationship to the work. I know that in the early days the track men moved around to their different jobs quite extensively on cars, and many of the other workers used the cars in that way, and I imagine initially when that was done, they had in mind the furtherance of the company's business, and certainly in greater part that was true at that time.

Q. Do you think there is now such reason for giving the company's employees passes? A. The company's employees could be deprived of their passes and still attend to their business, perhaps sometimes using automobiles instead of the cars, but I think that they would expect to be compensated in lieu of the pass, because that is a part of their compensation.

Q. Referring to employees using automobiles instead of passes, you have in mind their getting to and from work? [R. p. 660] A. No, when I say employees using automobiles, I mean those who have occasion to go out in connection with merchandising operations, collecting in some of the outlying sections, meter readers reading in some of the outlying sections, and so forth, and these use automobiles.

Q. But those cases are rare, are they not? A. No, the use of automobiles in the outlying sections is necessary, and quite common.

Q. But the cases in which company employees use passes on company's business are few as compared to the total number of employees of the company? A. There are relatively few that have to use passes in connection with their company business.

By Mr. Lester:

Q. Have you any justification for the giving of passes to Electric Department employees other than perhaps historical reasons? A. Well, I think if you assume that the

VIRGINIA TRANSPORTATION (Cont'd)

historical reason no longer exists, the giving of passes to the employees, if discontinued, would have to be offset by an increase in the compensation to the employees to keep them satisfied.

Q. Is any amount of the passes issued to Electric Department employees transferred to or credited to the Transportation Department? A. There is no credit that I know of, and never has been [R. p. 661] of that kind. In our contract,—you asked about the pass,—in our contract with the union, which all the employees below the grade of foreman belong to, there is a provision that we should continue he practice of issuing these transportation passes.

Q. When does the contract expire? A. The 31st of May. It is renewed on June 1st.

Q. (By Mr. Fischgrund) Mr. Jones, does the Transportation Department supply gasoline to the Electric Department trucks? A. It supplied it for a number of years from the filling stations, but the Electrical Department was billed for gasoline so supplied. We are not doing that any longer because of the complete separation of accounts caused by the Wages and Hours Act, and the gasoline used by the Electric trucks now is supplied from the Electric Department pumps.

Q. The Electric Department does not buy the gas used from those pumps from the Transportation Department? A. No, it does not, but it gets the benefit from the contract that the Transportation Department makes for gasoline. We always insert in this contract the provision that the gasoline needed for other Department's automotive equipment can be purchased at the same price.

Q. (By Mr. Lester) Turning again to the passes for employees, if you did [R. p. 662] not have a Transportation Department, you would not issue passes, would you?

The Witness: Would you repeat the question?

(Whereupon the pending question was read by the reporter.)

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VIRGINIA TRANSPORTATION (Cont'd)

The Witness: No, I don't think there would be any cause for the furnishing of transportation to all employees.

Q. (By Mr. Lester) In other words, if the company had no Transportation Department, you could not furnish passes on that system to the employees? A. I don't know about that.

Q. Doesn't the existence of the Transportation Department really render this giving of passes perhaps necessary? A. Well, I said that it could be discontinued, but if it was discontinued, I think that the employees would have to have some additional compensation, because they have grown to consider those special transportation passes as part of their salaries.

Q. I am aware of the situation that you have mentioned, but don't you think that the existence of the Transportation Department is just another complication in the situation which is going to be questioned by regulatory bodies, as it is being questioned here? A. I don't see that it complicates it at all, it seems to me that they have been working together from the beginning in a very natural way. It is certainly an advantage, I think, to [R. p. 663] have available upon call the skilled specialists in the Electric Department in the event of need. For example, their engineers are available if there are any problems of a special nature requiring electrical engineers. We have them available there, and can get them without any great effort, such as would be necessary if the two departments were operating entirely separately. And it might involve some difficulty in that way. It doesn't seem to me that it is any handicap.

Q. (By Mr. Fischgrund) Mr. Jones, do you have with you a copy of the report that you made in 1933 on the allocation of expenses between departments? A. I didn't make a written report on that, sir.

Q. Did you write out anything in connection with that? A. No, I discussed it with the then operating Vice-Presi-

dent and we, as I recall it, discussed the matter then with Mr. Holtzclaw, and I think either the Comptroller or the Treasurer were brought into the discussion and after it was decided that method would be followed, that was done, but I did not write out any of the details.

Q. How long did you carry on your investigations into the method of allocating expenses between departments? A. My recollection is, I don't know how long I carried on the investigation, but my recollection is that I discussed the matter over a period of several weeks.

[R. p. 664] Q. Investigated over a period of several weeks? A. Discussed it over a period of several weeks. I don't know how long I was engaged in checking or making observations. As a matter of fact, there was a substantial proportion of the bases for my recommendations, which I referred to before, namely, the very obvious fact to all of us around the office that the Electrical Department was consuming by far the major portion of the time of the top men, because of its growth and development, and the desire to get the rate adjusted, and down, so that we could sell as much energy as possible, and there was no such occasion for that in the transportation business, because nothing we could do would make the people ride. The general business conditions governed the amount of riding.

Q. Mr. Jones, didn't you, in connection with the studies of allocations of costs between departments for your own benefit or anyone else's, write out your findings and recommendations? A. I did not.

Q. Do you recall writing any letters to New York, to any officer or clerk in regard to the method of allocation of expenses? A. I don't recall writing a word on the subject. My discussion principally was, I think, with Mr. Bowes, who was then Operating Vice-President, and his office was next to mine, and I would walk in and talk with him about it, from time to time.

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VIRGINIA TRANSPORTATION (Cont'd)

(By Mr. Fischgrund)

[R. p. 679] Q. Is Virginia Electric & Power Company required to report as to the operation of the Transportation Department to any Commission or public authority? A. It makes a report to the Virginia State Corporation Commission of its operations.

Q. Of the Transportation operations? A. And Electric, too, and also Gas.

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T. NORMAN JONES

Re-Direct Examination

(By Mr. Moore)

[R. p. 698] Q. Will you now state whether or not, in your judgment, the riding public, that is, the revenue passengers on cars and buses would be benefited, in your judgment, in the rate of fare which will be required of them to be paid to yield a fair return on the company's investment if there were an immediate substitution [R. p. 699] of bus operations for that portion of the operations at present carried on by railway lines? A. I don't think so.

Q. Have you any figures now that relate to that matter? A. I made some figures yesterday bearing on that which I think are correct. They were partly prepared yesterday and partly worked up on Sunday when I was down in Richmond, and had more facilities for working than I have here, and it is on the basis of this estimate that I make the statement that I don't think that the riders would benefit in reduced rates if we transferred all-rail operations to all-bus operations. The gross revenue for railways in 1940, I should say for the bus operations in 1940, was $2,580,316.00. The operating expenses for the bus in that same year, including taxes and upward adjustment that Mr. Taylor of Lybrand Bros. has made, to reflect in his

VIRGINIA TRANSPORTATION (Cont'd)

opinion more accurately the operating expenses, totals $2,153,386.00, leaving a balance of $426,930.00, before the depreciation figure which Lybrand used.

Q. Mr. Taylor, you mean? A. Mr. Taylor of Lybrand used $237,348.00 for depreciation; and deducting that from the balance after operating expenses, we have $189,582. Mr. Taylor has used for Federal income taxes on the bus, interest and amortization on bonds which was allocated against the bus, and other income, the total of $102,316.00; deducting that from the $189,582.00, we have the balance of $87,266.00 for a return [R. p. 700] on the December 31, 1940, investment of $3,309,431, which is a rate of return of approximately 2.6 per cent.

Q. That is on buses? A. On the buses, yes.

Q. $3,309,430.00 is the investment in buses? A. Yes, as of December 31, 1940. Now, during the year 1940, there were 41,264,960 revenue passengers carried on the buses, according to the figures that I checked with Mr. Taylor yesterday. The corresponding figure of revenue passengers handled by the railways was 41,612,429.

Q. They are almost exactly the same, aren't they, on the rails and buses? A. About 346,000 more handled on the rail than on the bus that year.

Q. But, out of a total of 83,000,000 passengers, that is a relatively small difference? A. A very small difference. Now, in order to determine what would be the situation if we went over to all-bus operation, I made some figures on the estimated costs of equipment that would be needed for such operation. I worked over these figures with the General Manager of the Transportation system and our figures did not quite agree, but I used my figures, which were a little lower than his figures, or somewhat lower than his figures, of $2,676,000, as being the [R. p. 700-A] sum which, the approximate sum that would be required to make the change from rail to bus. That is the amount that would have to be spent on new equipment.

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T. Norman Jones, Jr.—Re-Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

Q. You are using your figures instead of—— A. (Interposing) I am using the figures that I made.
[R. p. 701] Q. That is a lower figure, is it not? A. A lower figure, and I checked my figures in part against the figures of Mr. Berry's figures, and I have used the lower figures which were my own conclusions.

Q. What is Mr. Berry's standing in the transportation industry of this country, Mr. Jones, I mean in the street railway and bus industry as a whole industry? A. He is a man well known in the industry. He was one of the men who assisted in the development of the one-man operated car known as the Birney car, he was connected with that change and he has made a survey of transportation systems in the different parts of the country and has had a very wide experience over a period of many years. I don't know just when he went into the business, as a young man, but he has been working in many different parts of the country and has always worked either on bus or street railway operations or, as a young man, at some mechanical business.

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Q. Will you state Mr. Berry's present occupation? A. Mr. Berry is general manager of the Transportation Department, for the System.

Q. Has he spent his lifetime in the transportation business, exclusively? [R. p. 702] A. I don't think he has ever worked at anything else except on matters that were mechanical, as I stated, and he started as a young man in the railway business and it has always been his work, other than work inspecting properties and valuing properties.

Q. Well, now, is it your considered judgment that the figure— A. (Interposing) I had not finished with my figures, Mr. Moore. We estimate, and this has been checked with the figures on the books as to the value of the build-

ings that could be or would be carried over as useful buildings which are such type of buildings we have been transferring from the rail accounts to the bus accounts when we have made transfers in the past, $986,948, which brings the total, including the value of the plant as of December 31, 1940, to $6,972,379. There are some few thousands of dollars that will have to be included to remove the trolley wires from the barns which will be converted into garages and for putting doors in barns where they do not exist now and also for some equipment and some other work in connection with the change over, which would run the amount in excess of 7 Million Dollars, but I had used the round figure because it is rather a difficult thing to determine with accuracy exactly what would be the costs. Mr. Berry has said that the cost, in his opinion, would be somewhere between 7 and 7 and one-half Million Dollars, but I [R. p. 703] think my figure at seven million dollars is probably not very far off, it may vary slightly from his, but I think it is close enough for all practical purposes.

Q. Is it your considered judgment that the seven million dollars may be regarded as the minimum figure that would be required, representing the capital investment in the bus business, if there would be an immediate transition from cars to buses for that portion of the Railway Department, or the Transportation Department, which is now in rails? A. I do not think it could be done for less than that.

Q. That, of course, includes the $3,300,000 of property at present standing in the bus department account? A. It will be noted that it is a little more than the plant account, and that there would be added to the plant account of $3,309,431, the sum necessary to complete the change-over which would be roughly $3,700,000 which would make an even $7,000,000. Now, the reason for that is that the type of equipment remaining on the streets is a type of car seating 44 to 48 passengers, and our figures show that we

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VIRGINIA TRANSPORTATION (Cont'd)

would have to have a larger number of large buses to replace that equipment than the average of the buses which we have today, which include a large number of little buses on the lines where the traffic is light and where small buses are used. Now, the $7,000,000, with the revenue derived from [R. p. 704] 41,612,429 passengers which, when the railway is changed over, insofar as the Richmond railway passengers are concerned, I think will mean that the average rate of fare per revenue passenger will not be allowed to exceed, within very close limits, the average fare today. On the buses, the cash fare is ten cents on most of the lines and on a few of the lines which have been changed over from railway to bus, it is seven cents, and the City was not willing to agree to the change-over from rail to buses unless we agreed to that charge on those lines.

Q. You said ten cents,—you mean that is in Richmond? A. Seven cents.

Q. Did you mean ten cents was the fare in Richmond? A. In Norfolk the cash fare is ten cents, in Richmond the cash fare on the buses is eight cents and on the railway it is seven cents, with the exception of a few lines that have been changed over from rail to bus and there the fare is seven cents instead of eight cents, due to the fact that the City would not allow us to change over from rail to bus unless the fare was on the basis of the rails, which was seven cents.

Q. That was in the case of a direct substitution? A. Yes; so I don't think if we were to change over today that the revenue that we would get from the 41,612,429 passengers would be very different from the revenue that is derived from the 41,264,960 passengers, to the extent of 346,000 passengers difference, which would be very small. That being the [R. p. 705] case, and applying the same operating ratio to the new business coming over that the buses have at present, would produce approximately the same 2.6 per cent return, it might be slightly higher than

that, but it would be far less than the rate of return that would be considered adequate for a return on an investment in this kind of business so I don't see anything in those figures that would justify the expectation that there could be any reduction in fares affecting the riding public, as a whole.

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[R. p. 710] Mr. Moore: • • • Mr. Jones, have you found in your experience in dealing with the State Commissions and the various city councils with respect to abandonments of rail lines, that you were able to obtain consents, the necessary consents to the abandonment of the rail lines, in general, without substituting the equivalent bus service therefor?

The Witness: Not for many years have we been allowed to abandon rail operations without substituting bus service for [R. p. 711] it.

Mr. Moore: That is the primary condition of the franchise, or permit, is it not?

The Witness: The position that the city takes is that, "All right, if you want to abandon the rail service, put in bus service in the place of it, and if you agree to operate this bus service, that is all right with us." In Richmond, this stipulation went further because at first they did not want us to abandon the street railway in the favor of buses, but they stipulated that if such change was made, that they would want the fare on the buses to be not more than the fare on the railway line when it was changed over, and after reaching an agreement on that subject, then we have been before the State Corporation Commission and presented an application for authority to abandon the railway operations and substitute buses.

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[R. p. 718] Q. Mr. Jones, you testified that it was your belief that the railway business would be continued in Rich-

mond until the expiration of the Richmond franchise in August, 1956. I believe you testified to that effect, did you not? A. I believe it will be. We have a right to operate in Richmond until 1956.

Q. What is the situation as you visualize it, Mr. Jones, that will exist with respect to the railway business in 1956? Will you have a situation very much like a man who has a 20-year old Ford by that time, or what will be the situation? In other words, will you still have an efficient railway operation? A. I think we will be operating what I have referred to as the heart of our railways in both Richmond and Norfolk as of 1956 and that we will be operating them efficiently and giving the public good service with the equipment at that time. There may be some lines that will be changed over in the meantime from rail to bus. I do not think that it will be extensive, on account of the general layout of what I have [R. p. 719] referred to as the heart of the system in both cities. I feel that the same situation will exist in Norfolk, because of the conditions there which make it desirable to handle mass transportation with the most efficient machine with which we can handle it, which is the large car on rails.

Q. How are the main arteries of traffic in Richmond and in Norfolk handled today? Is it by rail or by bus? A. The Main Street line and the Broad Street line are the two main rail trunklines in Richmond.

Q. Are they in the heart of the city? A. There is another line running into South Richmond known as Hull Street. The Main Street line and the Broad Street line are parallel to each other for a good portion of their lengths, and rail lines from other sections run into those two main trunklines. I feel that those lines will be operated right on through until 1956.

Q. That is, the main trunklines? A. Yes. And I do not think there is much likelihood of the other lines which

VIRGINIA TRANSPORTATION (Cont'd)

run into those lines being discontinued, because the track is in very good condition and we have equipment which should operate not only until 1956 but beyond. In Norfolk the trunk line situation is somewhat dif- [R. p. 720] ferent. Granby Street is the main trunk line through part of the retail section. There is a shorter line that operates almost parallel to Granby Street through the Church Street shopping district. Then there is a rail line running from the downtown district in Norfolk into South Norfolk. But the main lines that handle the heavy traffic are from the Naval Base and Ocean View—there are two double track lines to Ocean View. The Naval Base uses a substantial portion of the Granby Street track for, I would say, two miles or more from the downtown district to Ocean View, one of which double track lines from Ocean View operates the entire length of Granby Street to Ocean View. The third lines operates over a substantial portion of the downtown section, probably a couple of miles, or something like that, over Granby Street. So those lines coming into Granby Street feed the traffic into it naturally. And when the time comes, should it come, when the railway is abandoned and the bus is substituted for it, it is going to mean quite an additional problem from a traffic standpoint in handling all of the buses that would replace the cars, because a larger number of buses would be required than cars in order to handle the traffic.

Q. What is the condition of the tracks on those main trunk lines both in Richmond and in Norfolk? [R. p. 721] A. The outlying tracks are on private rights of way and are in very good condition. They are unpaved, open track. In the city proper the major portion of the tracks is in very good condition.

Q. What is the condition of the equipment that operates over those tracks at the present time? A. The equipment is in very good condition.

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VIRGINIA TRANSPORTATION (Cont'd)

Q. In view of that situation, Mr. Jones, will you state whether or not in your considered judgment the riding public would be afforded any better service if there were a transition made immediately to the bus, as compared with what they get now from the coordinated rail and bus? A. I do not see that they would have any better service than they are now getting.

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[R. p. 728] Q. Now, Mr. Jones, you were asked some question before lunch regarding the passes that are provided by the Transportation Department for other departments and employees. What is the value of the pass that the company sells to the public that is comparable to that pass that the employee has? A. The pass that the employee has is good for unlimited use by the employee. There is a $1.25 pass that is sold to the public which does not have a limitation as to who may use it.

Q. It does not have a limitation as to who may use it, Mr. Jones? A. It does not have a limitation as to who may use the pass.

[R. p. 729] Q. What is your best judgment as to the amount of adjustment in compensation that would have to be made of the company's employees for this free transportation, if it were taken away from them? A. I have thought of that in connection with this case and before, because I have tried to place some value on the pass in order to get an idea of what it would be. As near as I can come to it is $1.25 a week that I think the employees would expect to receive in cash if they did not have the pass. Of course, I can't say what they expect; but I think the company probably would have to pay about that much in cash to offset the privilege which has existed for so many years.

Q. That would be about $65 a year. A. Yes. It is $1.25 times 52.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Would that be applicable to every single employee who enjoys a pass, so far as you know? A. I should think that every employee would expect it, Mr. Moore.

Q. From the point of view of the company is it more desirable to provide along with the monthly pay check of the employee a certain amount of pay check plus this transportation rather than to add about $5 to his pay check as representing it? [R. p. 730] Which is the better from the point of view of the company? A. The need for change has not seemed to be sufficiently real to justify it. I think the method of handling the situation now is mutually satisfactory.

Mr. Moore: Will the Reporter please read the question that I asked? I do not believe Mr. Jones has answered it.

(The question was then read by the Reporter.)

The Witness: I think it is more satisfactory from the standpoint of the company to continue the practice as it is now.

Q. (By Mr. Moore) What is now being done certainly tends to conserve the company's cash and also promotes riding, doesn't it? A. I think it has some tendency to promote riding.

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[R. p. 731] Q. What were the duties of the vice-president in Richmond at that time, that is, during this period from 1929 to 1934, referring to the vice-president to whom the general manager of transportation reported? [R. p. 732] A. System operations, the operating vice-president for the system. He had general supervision over all of the operations in all of the departments—transportation, gas, and electric.

Q. In between your office and your position as vice-president in charge of transportation and the president of the company there is some other official at the present time, is there not? A. System operating vice-president.

VIRGINIA TRANSPORTATION (Cont'd)

Q. And what are his duties? A. He has general supervision over the system operations—electric, transportation, and gas.

Q. To the best of your knowledge and belief, were the properties efficiently operated, so far as transportation is concerned, between 1929 and 1934? A. I think they have been very efficiently operated, certainly ever since 1929, and even earlier.

Q. In view of what you just stated, Mr. Jones, I will ask you whether or not there is anything in the transportation department and its business that necessarily points to the need of a vice-president in charge of transportation alone, or is that simply an organizational matter from the standpoint of convenience? A. Well, there are advantages in having one head who handles the policy matters and who is able to discuss [R. p. 733] matters for the system as a whole with the operating vice-president. And it was deemed advisable to have one man looking after the transportation just as, you might say, the general manager of the electric system looks after the electric system. He, in turn, reports directly to the vice-president.

Q. As a matter of fact, prior to 1934 had the company ever had a vice-president in charge of transportation as such? A. Not as such.

Q. Then, Mr. Jones, would you say that the creation of the position that you now hold, in 1934 was the result of anything involved in the necessities of the situation, or was it due to convenience and expediency? A. Well, as I have said before, I think it was deemed a desirable thing to do in order that there might be one individual who followed the system policies in the different communities and was able to see that they were carried out equally in all of the divisions. The operating vice-president for the Norfolk Division, operating independently of the transportation department, and one operating independently in Richmond

VIRGINIA TRANSPORTATION (Cont'd)

perhaps would not have had common ideas as to efficiencies and uniformity of equipment, standards, and matters of that kind. But one man looking to [R. p. 734] standards and practices and policies I think can do the work more satisfactorily than two.

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[R. p. 735] Q. Could you possibly operate the transportation department as efficiently as it is now run if you did not have the benefit of these joint arrangements with the electric department in personnel that you have referred to, particularly between the executives? A. Unless you had the abilities of the men who are called upon and are available, or men of equal ability, I don't think it could be done.

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T. NORMAN JONES

Re-cross examination

[R. p. 751] Q. (By Mr. Fischgrund) Mr. Jones, do you recall testifying in answer to Mr. Moore's question to the effect that if passes were not given to the employees of the company it may be necessary to increase the amount of their compensation by perhaps $65 a year? A. I think it would probably be necessary to give them a pass similar to the weekly unlimited pass that we have now. If we took away the pass that they now have it would be necessary to give them in compensation a cash equivalent of approximately that.

[R. p. 752] Q. And if that were done would the amount that was so given to the electric department employees be charged as an expense of the transportation department? A. Will you give me that question again, please?

(The last question was read.)

The Witness: I don't exactly understand the question.

Q. (By Mr. Fischgrund) I mean, if the company discon-

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tinued giving its employees passes and instead gave them $65 a year more in salary, would all of that $65 per year as applied to all of the company's employees be charged to the transportation department? A. No.

Q. If the company did not give them $65 a year, that is, give the employees $65 a year, but gave them, let us say, $50 or $60 a year, representing the cost of the transportation pass, would that amount as applied to all of the company's employees be charged to the transportation department? A. No, I would think that the amount that was given the employees in cash, in lieu of passes, would be reflected in the department in which the employee was. If he is a joint employee there would be some joint distribution of that expense just as there is of his salary.

Q. Is there any reason why the cost of transporting the employees, that is, the cost of passes, should not be so allocated between the departments? [R. p. 753] A. If you assign the value to the pass which at present we don't have on the books at any value, it could be allocated.

Q. And don't you think it should be so allocated? A. I think to give a picture of the operating expenses of each department that would reflect as accurately as it could be made to reflect the expenses of that department, that so far as the pass is concerned it should be charged against the operating expenses on the basis of probably $1.25 a week or whatever is decided upon. It is a figure that would represent the cash that would have to be paid to the employee in lieu of transportation. That could be assigned to the department the employee worked in, that portion of the cost.

Q. Don't you think that the operating expenses of each department should, as accurately as possible, reflect the operating expenses of that department? A. I think the system that we have used is open to criticism in that it does not do that, and that it can be approximated more

closely than it has been approximated. I don't think we can ever get an exact allocation of the time of any employees.

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[R. p. 757] J. G. HOLTZCLAW

[R. p. 758] a witness appearing on behalf of Respondents, having first been duly sworn, was examined and testified further as follows:

Direct Examination

Q. (By Mr. Moore) Please state your name, age, residence and occupation? A. My name is Jack G. Holtzclaw; 54 years old; residence address 603 North Davis Avenue, Richmond, Virginia; business address Electric Building, 7th and Franklin Streets, Richmond, Virginia. I am president of Virginia Electric and Power Company.

Q. Will you briefly describe your educational background and business experience as an engineer and utility operator? A. I graduated in electrical engineering at Georgia School of Technology in 1907. I entered the employ of Stone & Webster, Inc., Boston, Massachusetts, in September 1907. I was sent by that firm to Savannah, Georgia, as student engineer January, 1908. During three years at Savannah I served as student engineer in various occupations, including miscellaneous power station work, street car conductor, mechanic in car barns, night dispatcher in transportation system, purchasing agent and assistant to the manager. I was transferred to Pensacola, Florida, as supervisor on transportation system of Pensacola Electric Company, January, 1911; was promoted to assistant superintendent of transportation late in 1911; was made superintendent of transportation in 1914; made general superintendent [R. p. 759] of transportation and electric department in 1916; appointed manager in 1919 and appointed receiver by the Federal Court in 1920. On sale of the property at

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VIRGINIA TRANSPORTATION (Cont'd)

end of receivership I was transferred to Beaumont, Texas, in January 1925, as manager of the Eastern Texas Electric Company, which name was later changed to Gulf States Utilities Company, of which I was vice president, and was transferred to Richmond, Virginia, November, 1929, as president of Virginia Electric and Power Company, which position I have held continuously up to the present time, and as such I have general charge of the entire operations of that company. During all this time until 1937 I was employed by companies controlled or supervised by Stone & Webster, Inc: since 1937 Virginia Electric and Power Company has been under the exclusive control of Engineers Public Service Company.

Mr. Moore: We would like to ask, Mr. Lester, whether you have any cross-examination in connection with the qualifications of Mr. Holtzclaw as an expert electrical engineer and utility operator, which we now desire him to be qualified to be?

Mr. Lester: I have absolutely no questions. I gladly admit his qualifiations.

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[R. p. 759] Q. (By Mr. Moore) Mr. Holtzclaw, do you know what amount is included in operating expenses applicable to the transportation department during the year 1940 representing the charge made against that department for electric energy delivered by the electric [R. p. 760] department for use in the operation of the cars and other facilities of the transportation department? A. This amount was $107,583.74.

Q. How was this amount arrived at? A. This amount represents the transportation department's pro rata share of operation and maintenance costs of all steam stations and hydro stations, plus its pro rata share of the operation and maintenance of the transmission system. This cost is arrived at by dividing total costs between the departments

VIRGINIA TRANSPORTATION (Cont'd)

in direct proportion of the kwh used by each. In other words, in the year 1940, 879,045,631 kwh were generated in all of the company's power stations, or purchased from outside sources. Of this amount, 34,162,978 kwh were delivered to the transportation department for the operation of street cars and for miscellaneous uses. 33,018,430 kwh were delivered by the electric department at various locations for use by the transportation department for street cars, the greater portion of which, namely, 28,913,530 kwh was converted into direct current, either through motor generator sets or rotary converters. This conversion operation took place in twelve different locations in Richmond and Norfolk, but over eighty percent of it was delivered to five stations, none of which is over two miles from the source of generation. Over four million kwh were generated on water wheels as direct current at the power plant in Richmond. [R. p. 761] According to our records 27,927,045 kwh were actually consumed by the transportation department in the year 1940, leaving a loss due to conversion and other causes of 6,235,933 kwh. The average cost of production, including operation and maintenance, plus the operation and maintenance of transportation facilities for the year 1940 was approximately 3.145 mills per kwh. This average cost applied to the railway consumption of 34,162,978 kwh produces the total cost of power for 1940 for the transportation department, namely, $107,583.74, which amount was set up on the transportation department's books in operating expenses.

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[R. p. 762] Q. (By Mr. Moore) Did the average cost above mentioned include the entire cost to the company incurred in connection with the production and delivery of this energy to the transportation department? A. The cost above mentioned includes only operation and maintenance expense incurred in producing and transmitting energy,

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and did not include any portion of charges such as taxes, insurance, depreciation or interest on the investment.

Q. Why have these additional elements not been included heretofore in fixing the charges against the transportation department for electric energy delivered by the electric department [R. p. 763] to the transportation department? A. This method conforms to the accepted accounting practices for interdepartmental transactions under similar conditions——

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[R. p. 763] The Witness: This method conforms to the accepted accounting practices for interdepartmental transactions under similar conditions in so far as I have had experience in such matters.

Q. (By Mr. Moore) If consideration is given to the inclusion of taxes, insurance, depreciation and interest on the investment, then what would be the charge properly allocated against the transportation department for electric energy delivered by the electric department for the operation of the street cars and other facilities of that department for the year 1940? A. In order to completely cover all elements of cost other than operation and maintenance incurred by the electric department in furnishing electric current for the transportation [R. p. 764] department, it will be necessary to establish a rate carrying a demand charge of $12 per kw per year to cover depreciation, taxes, insurance and interest on investment. To completely cover the cost incurred in production and transmission, operation and maintenance, we would add to the actual production cost at the switchboard, plus transmission cost, 10 percent to cover transmission and distribution losses, which, in my judgment, is ample, in view of the fact that over 12 percent of the railway energy is generated as direct current and metered directly on power station bus bars and 80 percent of the remainder at stations only a few miles from the power plants in Richmond and Norfolk respectively. The esti-

VIRGINIA TRANSPORTATION (Cont'd)

mated maximum coincidental demand of the transportation department for the year 1940 was 8,330 kw, which at $12 per kw per year produces $99,960 to cover the above mentioned fixed charges. The transportation department received from the electric department during the year 1940, 34,162,978 kwh. The cost of production and transmission was approximately 3.145 mills per kwh in 1940. Adding 10 percent to this to cover transmission and distribution losses, a cost of 3.46 mills per kwh is arrived at for the average cost of energy. Applying this average cost to the total consumption of the transportation department, namely, 34,162,978 kwh, produces an energy cost of $118,204, or a total cost to the transportation department, including demand charge, of $218,164, or an average rate of 6.4 mills per kwh. This rate is based upon [R. p. 765] the transportation department's bearing and paying for all losses from conversion and other sources.

Q. Right there, Mr. Holtzclaw, may I ask you: does the company have other customers in its electric department which have a rate comparable to that rate? A. Yes—May I ask whether you mean alternating current customers or direct current customers?

Q. Alternating current customers. A. The company has no customers with a rate made up exactly like that, but we have a rate, which I shall discuss further here, quite similar to it, the rate on which the Virginia Public Service is served at Newport News.

Q. What is the result? A. The result is it produces about the same rate per kilowatt hour if it were applied to the transportation department.

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VIRGINIA TRANSPORTATION (Cont'd)

J. G. HOLTZCLAW

Re-Direct Examination

(By Mr. Moore)

[R. p. 856] Q. Mr. Holtzclaw, so far as you know, has there been any occasion up to the time of preparing for the hearings in the present proceedings, to make a careful detailed analysis of such interdepartmental expenses as the charge for electric energy from the electric department to the transportation department or the charge for free transportation furnished by the transportation department to electric department employees and so forth? A. None whatever that I know of.

Q. Reference was made by Commission counsel to the fact that in this Virginia State Commission opinion of 1921, the opinion was expressed there that there should be a differential included, in addition to production cost of energy, so as to cover depreciation, taxes and interest. What was the actual difference that the Commission suggested between the production cost of energy and the rate that they suggested? A. The rate they suggested was 11 mills. The production cost was 7.6 mills. The Commission, therefore, suggested that the company add 3.4 mills to the cost of production to cover all the elements of depreciation and interest on the money and so [R. p. 857] forth.

Q. What is the amount of difference in the rate that you propose for the transportation department between the switchboard cost and the rate that you propose? A. The rate which I have proposed is 6.4 mills. The switchboard cost, including transmission, is 3.14 mills. The difference is 3.26 mills to take care of all elements of cost.

Q. Were interest charges substantially higher in 1921 or lower than at the present time? A. I would say roughly they were double.

Q. At that time? A. Yes.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Since you have been president of the Virginia Electric and Power Company, did you have occasion to negotiate with the State Commission in regard to the value of these off-setting items in the transportation department, such as joint use of poles, transportation passes and so forth with respect to the question of whether or not there should be actually put into effect on the books a charge to the transportation department in addition to the switchboard cost? A. I did.

Q. Briefly what occurred in that connection? A. In 1933, after the completion of the so-called Saville report, copy of which was referred to previously here, the question was taken up with the Commission because of the fact the [R. p. 858] Saville report alluded or referred to this opinion of the Commission of 1921 in which they suggested the company charge 11 mills and stated that the company had never done it. Early in 1933, an informal hearing was held before the Commission on the subject of the Saville report as to the value of the property and the rate of return. The question came up as to whether the transportation department was being charged a proper amount for the energy. We discussed it informally before the Commission and told them we were charging switchboard costs plus transmission, that the transportation department was giving free transportation to employees of all other departments, was giving the electric department free use of its poles and its rights-of-way and that it just looked as if, after we went into a lot of detail in trying to figure out all of the answers, we would come out with only a small amount of money involved, it would mean endless bookkeeping in the future and the Commission took no further action in attempting to force their thoughts on us.

Q. There never was any order? A. There never was an order issued and the matter has not been mentioned by the Commission since.

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VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 938] C. B. TAYLOR

called as a witness on behalf of Respondents, being first duly sworn, was examined and testified as follows:

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Direct Examination

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Q. (By Mr. Moore) Will you please state your name and place of business? A. C. B. Taylor, 90 Broad Street, New York City.

Q. You are a public accountant, are you not, Mr. Taylor? A. Yes, sir.

Q. Will you please state in a general way your experience? A. I entered the employ of Lybrand, Ross Bros. & Montgomery in November, 1917 as a member of their staff and became a member of the firm in October, 1929 and have been in active practice as a member of the firm ever since that time. I am a member of the American Institute of Accounting and the State Societies of Certified Public Accountants in New York and Michigan.

[R. p. 939] Q. Was your firm requested by Virginia Electric and Power Company to review its income statement for the year 1940 for the purpose of segregating the net income shown thereon between the operating departments of the company? A. We were.

Q. Has your firm made such a review? A. We have.

Q. Have you prepared a report showing the result of such review? A. We have.

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[R. p. 940] Q. Will you now describe briefly the results of your review which are indicated by your report? A. The report presents on page 4 a statement showing in the first column the same items which appear in the income statement for the year 1940 included in the company's annual

report to its stockholders. The three succeeding columns show what I believe to be a fair allocation of such items to the electric, gas and transportation departments after giving effect to the adjustments shown in this statement. On the following page, a break-down of the transportation department income is made as between its railway and bus divisions. On the next page is shown an analysis of the interdepartmental adjustments which are summarized in the first and second statements. On the first two statements a sub-total is shown for "net operating revenues per books before depreciation." The items beyond that point in the statements are not allocated to departments on the company's books, except that merchandise, jobbing sales and costs are segregated between the gas and electric departments.

Q. You speak of interdepartmental adjustments which have been made by you, will you please explain what these [R. p. 941] consist of? A. I will deal with them in the order in which they are listed in the third statement included as page 6 of our report.

Q. That is the last sheet, is it not? A. Yes, sir.

Q. All right. A. The first item is "Reapportionment of Joint Expenses on Basis of Gross Operating Revenues of prior year."

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[R. p. 942] Q. Go ahead, Mr. Taylor. A. The reason for this adjustment is stated on pages 1 and 2 of our report as follows:

"The general apportionments used by the company are based upon either (a) departmental operating revenues, less operating expenses (exclusive of depreciation and taxes), or (b) departmental operating revenues. In either case the apportionment is determined by the figures of the preceding year.

VIRGINIA TRANSPORTATION (Cont'd)

"Notwithstanding our careful consideration we have been unable to find any substantial support for basis (a). Alternately, we believe that basis (b) has more widespread sanction and gives more complete recognition to all the factors which should properly be considered where a general basis of apportionment needs to be resorted to. Accordingly, in the accompanying statements we have made adjustments which we feel to be equitable in the substitution of basis (b) for basis (a) where the latter has been used in the company's accounting."

The next item is the "Reapportionment of the Company's Contributions to Employees' Benefit Association" on the [R. p. 943] basis of membership represented in each department of the company. The company's method of apportionment was on the basis of the net operating revenues (before taxes and depreciation) of each department. Apart from the question of whether net operating revenues or gross operating revenues furnish a more accurate measure of general apportionment, it is believed that the type of expense represented by the contribution of the company to its Employees' Benefit Association lends itself to a more specific means of allocation. For instance, all of the employees of the company are not members of the Association. At December 31, 1940 the Association had a membership of 2,889, whereas the total company employees numbered 3,807. Also revenues whether net or gross would not seem to be as satisfactory a test of the benefits received by each department from these payments as would the number of employees in each department who by their membership in the Association would be entitled to receive its benefits. Accordingly, we made a study of the company's payroll records as at December 31, 1940 to determine the departmental status of the 2,889 members of the Association at that date. We found that the departmental status was as follows:

VIRGINIA TRANSPORTATION (Cont'd)

Electric Department	1,476
Gas Department	125
Transportation Department:	
Railway Division	637
Bus Division	651
Total	2,889

[R. p. 944] Expressing the figures in terms of percentages of the total number of employees, the electric department percentage would be 51 percent, the gas department 4 percent, railway division 22 percent and bus division 23 percent. These percentages were then applied to the total contribution of $69,155.89 made by the company to the Association during the year 1940. The resulting allocation to the electric department was $35,269.50, gas department $2,766.24, railway division $15,214.30, and bus division $15,905.85. In the previous adjustment changing the company's apportionment basis from net to gross revenues the contributions of the company to the Association were likewise reapportioned. The allocation of the amount of $69,155.89 thus reapportioned amounted to:

Electric Department	$49,100.68
Gas Department	3,457.79
Railway Division	8,298.71
Bus Division	8,298.71

The allocation as adjusted from a gross revenue to a membership basis resulted in decreasing the charge to the electric and gas departments by $13,831.18 and $691.55, respectively, and increasing the charge to the railway and bus divisions by $6,915.59 and $7,607.14, respectively. The next item of adjustment covers the electricity furnished by the electric department to the gas department and [R. p. 945] the railway division. The adjusted charges have been computed by the company at rates which officials informed

VIRGINIA TRANSPORTATION (Cont'd)

us are believed to be more satisfactory than those heretofore used for book purposes. The effect of the adjustment is to increase the charge to the gas department by $5,812.97 and to the railway division by $110,580.36, with a corresponding credit of $116,393.33 to the electric department. The next item is the charge to other departments for gas furnished by the gas department. Heretofore there has been no interdepartmental accounting for this service. We were furnished by the company with a memorandum showing the rate believed to be fair for the purposes of this adjustment and the computation of the charge. The adjustment resulted in a charge to the electric department of $5,197.20, to the railway division of $184.38, and to the bus division of $199.74, the off-setting credit to the gas department amounting to $5,581.32. The next adjustment covers free transportation furnished to employees. Employees receive free passes for use on the company's transportation system. No accounting had been made for the value of such use by the electric and gas department employees of the company's transportation facilities. In order to place a value upon these passes, it was necessary to ascertain the use made of them by employees. A canvass was therefore made of 388 employees in Richmond and 308 [R. p. 946] in Norfolk in order to obtain a cross section of the 1,702 employees engaged in whole or in part in the electric and gas departments. As a result of the canvass it was found that the average rides per week in Richmond were 14.23 and in Norfolk 15.7. The average amount received per revenue passenger was then determined for the two cities and was applied to 14 rides per week for Richmond and 15 rides per week for Norfolk, producing a value of $1.015 per week for the Richmond pass and $1.25 for the Norfolk pass. Similar calculations were made for employees in Petersburg and Portsmouth, the former on a 14 ride basis and the latter on a 15 ride basis. These weekly values were placed on an annual basis and multiplied by the number of allocated

VIRGINIA TRANSPORTATION (Cont'd)

electric and gas employees in each district, namely, Richmond 807, Norfolk 686, Portsmouth 55 and Petersburg 77. In addition there were 31 electric employees holding interurban passes. These have been valued at $1,000 which would approximate two rides per week per employee on the lowest rate basis. The total value of passes as thus determined, represents a charge to the electric department of $83,610.49 and to the gas department of $10,790.00, the corresponding credit being made to the railway and bus divisions in the amounts of $46,532.74 and $47,867.75, respectively. The credit as between the railway and bus divisions has been determined by [R. p. 947] districts in accordance with the passenger revenues for the particular district. The next item relates to advertising in the company's street cars and buses by departments other than the transportation department of the company. The company entered into an agreement dated October 1, 1940 with National Transitads, Inc., under which the latter was granted the exclusive advertising rights with respect to the company's transportation facilities. The terms of the contract were that Transitads was entitled to deduct as its commission 20 percent of the gross amount received from advertisers and the balance of 80 percent was equally divided between Transitads and the company. Under this contract one advertising space 11" x 28" was reserved in each vehicle for the company's advertising of its own business. Also all exterior space in the transportation facilities was reserved by the company for its own use. We were informed that the company utilized its reserved space in all vehicles throughout the year solely in the promotion of its electric department business, and that any exterior space advertising was solely for the benefit of the company's transportation department. We were also furnished with a copy of the advertising rate schedule. From this rate schedule we determined that the amount of revenue which would flow to the company from the use [R. p. 948] by an advertiser of the 11" x 28" space above

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mentioned would be $1,144.37 in the Richmond Division and $930.96 in the Norfolk Division, or a total of $2,075.33, which represents the amount of the adjustment charged to the electric department. The allocation of the corresponding credit between the railway and bus divisions was determined separately for Richmond and Norfolk on the basis of the respective railway and bus passengers carried during the year 1940 in each of these two locations. The total credit to the railway division was thus $1,119.90 and to the bus division $955.43. The next class of items covers the joint use of facilities concerning which no interdepartmental accounting has heretofore been made by the company. The first item relates to the joint use of space in general office buildings and storerooms. The company owns office buildings at Richmond, Norfolk and Petersburg, and the Richmond general storeroom and Norfolk 18th Street storeroom which come within this category. The joint use by each department of the company has been determined from building plans by the measurement of the actual space occupied by each department. The rental values have been measured by amounts paid by outside tenants or by values furnished by real estate agents in the respective localities. Where a particular room in an office building is used in [R. p. 949] joint operations, the allocation of the applicable rental value has been apportioned generally in accordance with the apportionment of the pay roll of the department using the space. From the rental values thus ascertained, have been deducted the building operating expenses covering the building services to which a tenant would be entitled, which have been applied on the same basis as that at which they were charged to the respective departments. The total net rental thus ascertained for the five buildings, represents a credit to the electric department of $19,633.00 and a corresponding charge of $10,721.00 to the gas department and $3,691.00 and $5,221.00 to the railway and bus divisions, respectively. The next item relates to the jointly used

VIRGINIA TRANSPORTATION (Cont'd)

poles and rights-of-way. The interdepartmental adjustments under this category are based upon an inventory recently made by the company, in conjunction with Stone & Webster Engineering Corporation, of company poles. We were furnished with a statement by the engineers indicating that there were a total of 5,775 company poles jointly used by the electric and railway departments. Of this amount, 3,244 were in the Norfolk district and 2,531 in the Richmond district. Included in the total were 1,701 poles which were [R. p. 950] situated on railway rights-of-way, 1,276 of which are located in the Norfolk district and 425 in the Richmond district. As to these 1,701 poles, we have considered their rental value to the railway department to be an offset to the rental value of the use of the rights-of-way to the electric department and have therefore reduced the numbr of jointly used poles accordingly. This left a total of 4,074 jointly used poles of which 1,968 were located in the Norfolk district and 2,106 in the Richmond district. It was then necessary to determine which of the two departments had the predominant use of each pole in order that it might be decided in which department the pole should be carried. Tests were made by the engineers with the result that 3,608 poles were determined to be predominantly electric and 466 predominantly railway. The predominantly railway poles were then paired off against the same number of predominantly electric poles and the remainder of 3,142 was used as a basis for a charge against the transportation department for their use. A rental rate of $1.25 per annum was used, which is the mutual rate under the company's agreement with the Chesapeake and Potomac Telephone Company for joint usage. The rental on this basis, that is, 3,142 poles at $1.25 amounted to $3,927.50. Tests were made by us of the pole records as to the number of jointly used poles and also as to their predominant use. [R. p. 951] The next item of adjustment covers the joint use of manholes. We were furnished with a statement by a Stone & Webster

VIRGINIA TRANSPORTATION (Cont'd)

Engineering Corporation engineer showing that 1,574 manholes were included in the company's system of which 254 were jointly used by the electric and railway departments and that according to the inventory 13 percent of the ducts entering the jointly used manholes were used wholly by the railway department. The engineers further estimated the investment in jointly used manholes to be $118,500. We also obtained from the tax records of the company the value at which the company's manholes were assessed. Using these factors as a basis, we calculated the taxes, depreciation and interest on investment relating to jointly used manholes. In as much as the railway ducts represented 13 percent of the total ducts in the jointly used manholes, 13 percent of the taxes, depreciation and interest was allocated to the railway department in the amount of $915.35. The last adjustment item covers the use of office furniture and equipment in jointly used buildings, namely, the general office buildings at Richmond, Norfolk, Petersburg and Portsmouth and the storerooms at Richmond and Norfolk. No interdepartmental accounting had previously been made for such use. We obtained the amounts of office furniture and equipment [R. p. 952] at the various locations from the property records of the company, which in total amounted to $249,704.38. With these amounts as a basis, we determined the applicable amounts of taxes, depreciation and interest for each location, the distribution being made on a gross revenue basis for each location. The resulting credit to the electric department in which department the property is carried, amounted to $4,049.56 with charges to the gas department of $823.42 and the railway and bus divisions of $1,477.22 and $1,748.92, respectively. On the first two statements (pages 4 and 5 of our report) a reallocation of federal income and capital stock taxes is made between departments. This has been necessary because no part of these two taxes has been allocated to the transportation department on the company's books.

VIRGINIA TRANSPORTATION (Cont'd)

We have allocated these taxes over all departments in proportion to the taxable net income which each department contributes to the total taxable net income of the company. We do not believe there can be any question as to the soundness of this method of allocation when applied to the federal income tax. As to the capital stock tax, it is true that the tax is based on the value declared by the company for its capital stock; but in making such a declaration it is commonly recognized that the value is placed at the lowest amount which will avoid the imposition of any declared value excess profits tax. [R. p. 953] In my opinion, therefore, the federal capital stock tax bears a very direct relation to taxable net income, and should be placed upon the same apportionment basis as the federal income tax, namely, in proportion to the taxable net income of each department. In the reallocation of these taxes $64,554.98 and $23,688.63 are assigned to railway and bus divisions, respectively, with credits of $68,250.38 and $19,993.23 to the electric and gas departments, respectively. All of the other types of taxes are amenable to specific allocation to departments, and have been so treated in the company's books. The "Other Income" classification, which actually is a net loss of $54,002.21 as reflected in the company's annual income statement, is not allocated by departments on the company's books, except as to the results of merchandise and jobbing sales. Other items consist of interest revenues and miscellaneous income and deductions. Where practicable, specific allocation of each item to the department concerned has been made by us, but where the items are of a general nature allocation has been made to departments on the basis of gross revenues. Interest on long-term debt includes $112,875.05 on the company's 3 percent notes payable to banks, due 1941 to 1946, and $1,312,500.00 on the company's First and Refunding Mortgage Bonds, Series B, 3½ percent, due 1968. The 3 percent notes [R. p. 954] were issued in connection with additions to the company's

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VIRGINIA TRANSPORTATION (Cont'd)

Twelfth Street power station, and the interest thereon is wholly assignable to the electric department. The bond interest has been apportioned between the electric and gas departments and the bus division of the transportation department in proportion to their book amounts of utility plant after the deduction from electric utility plant to the amount of the 3 percent notes. No part of the bond interest has been assigned to the railway division of the transportation department because we were informed that at the time the bond issue was negotiated the railway property was not regarded, either by the company or the underwriting group which made the offering, as having any value as security under the mortgage beyond its possible sale or junk value. Under the terms of the indenture of mortgage additional railway property is expressly excluded from additional property against which bonds may be issued (Article 2.09(c)); and railway property deemed by the company to be unprofitable may be abandoned without the consent of the Trustee (Article 5.01 and 5.02). Other interest consists principally of interest on consumers' deposits, the Norfolk District portion of which being allocated between the electric and gas departments according to the residential electric and gas revenues in that district. [R. p. 955] Amortization of discount and expense has been apportioned in the same manner as the bond interest.

Mr. Moore: Now, if it please the Examiner, we offer Mr. Taylor's report as Engineers' Exhibit No. 63.

Mr. Lester: No objection.

The Examiner: The report is now admitted under the number mentioned.

(Engineers' Exhibit No. 63 was received in evidence.)

Q. (By Mr. Moore) Mr. Taylor, are the adjustments which you have now made in your report and which you have explained in your testimony thus far in the case all adjustments which, in your considered judgment, should be made for the purpose of fairly and accurately segregating

VIRGINIA TRANSPORTATION (Cont'd)

the net income of the company of the total amount of $4,128,593.29 for the year 1940 as between the several operating departments charging each departmental expenses which are fairly attributable to that department? A. They are.

Q. Directing your attention for just a moment to the results of your study and analysis regarding the transportation department, will you look at the first schedule, page 4, entitled "Virginia Electric & Power Company, Departmental Income Statement for the Year Ended December 31, 1940," and state [R. p. 956] what is the total net operating revenue, according to the books, after making all proper adjustments before depreciation? Well, first state what is the net operating revenue as per the books before depreciation? A. For each department?

Q. No, for the transportation department. A. $1,145,360.74.

Q. Now, that was before any adjustments had been made but simply as the figures appear on the books? A. That is so.

Q. Now, what is then allowed for the depreciation applicable to the transportation department? A. $820,690.

Q. Now, how is that amount determined, $820,690? A. That figure was determined on the basis of using the rate of 6½ percent for railway property, 3 percent of bus property, depreciable bus property other than buses, and $1.86 per bus-mile traveled for buses.

Q. How did those amounts compare with the amounts which the company used for the year 1940? A. They were the same amounts.

Q. Now, what was the total amount of adjustments that you have made applicable to the transportation department, I mean before interest? Have you got it that way in the [R. p. 957] book conveniently? A. I will have to add up these four figures. The total amount of the adjustment to the transportation department was $210,065.46.

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VIRGINIA TRANSPORTATION (Cont'd)

Q. Up or down? A. They were increased.

Q. That is expenses were increased by that amount? A. That is right.

Q. Now, does that amount include the amounts which you have charged to the transportation department on account of interest and amortization? A. No, it does not.

Q. What is the total that you have now charged for interest and amortization applicable to the transportation department? A. $72,488.36.

Q. After making the deduction for depreciation of $820,690 and after further deducting the adjustments upwards in expenses to which you have referred applicable to the transportation department of two hundred what? A. $210,065.46.

Q. And after still further deducting the sum of $72,488.36 applicable to the transportation department representing interest and amortization, and after also making the adjustment in connection with other income of $1,897.55 which [R. p. 958] you deducted from the transportation department, there is yet left a net balance in connection with transportation department operations of what amount? A. $40,219.37.

Q. Now, what would the amount be resulting from transportation department operations for the year 1940 after making all adjustments that you have made, but before depreciation? A. The net income of the transportation department as adjusted before depreciation would have been $860,909.37.

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J. G. HOLTZCLAW

Further Direct Examination

[R. p. 1058] Q. (By Mr. Moore) Mr. Holtzclaw, have you made a study of the cash requirements of the railway department of the company for replacements of property or other

VIRGINIA TRANSPORTATION (Cont'd)

capital expenditures of this department during the next fifteen years, that is until the expiration of the Company's Richmond street railway franchise in 1956 and, if so, will you please present this information at this time? A. I have had a study made of the probable cash requirements of the railway department of the company for additions to and replacements of property or other capital expenditures during the next 15 years and it is my judgment, based on this study, that these requirements will not exceed $750,000 for the 15 years, or an average of $50,000 a year for normal capital requirements, plus $1,000,000 to cover the cost of removal of tracks and replacement of street paving in Richmond and [R. p. 1059] Norfolk at the end of the 15-year period, or from time to time as buses may be substituted for street cars, a total of $1,750,000.

Q. That figure of $750,000 for construction requirements for the next 15 years compares with the figure of $1,032,722 that you just referred to for the last ten years, does it? A. Not necessarily. There were some items in the last ten years of construction as the result of paving that might well be considered as coming into the other million dollars.

Q. All right. Will you go ahead? A. During the five years, '36 to '40, inclusive, gross additions to the railway department's plant and property have amounted to $585,225, an average of over $117,000 a year. Of this amount, however, $300,283 cover expenditures within the past four years for the purchase price plus reconditioning expense up to December 31, 1940 of 87 modern light-weight, double truck streetcars representing over 30 percent of the railway rolling stock. Twenty of these cars were purchased in '38, thirty-three in '39 and thirty-four in 1940. Reconditioning work has not, in some cases, been completed in the year the cars were purchased. Fourteen of the 87 are not yet in service. Also included in these five years are two contributions, totaling $48,525, to the construction [R. p. 1060] of concrete bridges in the city of Norfolk over which street rail-

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VIRGINIA TRANSPORTATION (Cont'd)

way cars operate. Gross additions to plant and property other than these items, representing this street car equipment and the bridges during the five-year period, total only $236,417, which is an average of slightly over $47,000 per year for additions other than street cars and this equipment, plus the bridges. Equipment fleets in both Richmond and Norfolk are now in good condition, ample in number for the service and with normal maintenance expenditures will operate for the next 15 years and beyond, if necessary.

Q. Now just a moment there, where you refer to equipment fleets, what do you mean? A. I mean the company electric railway rolling stock.

Q. You mean the street cars? A. Street cars and equipment, electrical equipment?

Q. Proceed. A. Street car and bus traffic in Norfolk and Portsmouth due to the large increase in population brought about by the national defense program is heavy but we have, through the purchase of additional street car and bus equipment, provided for even heavier traffic than now exists. Unless the two cities in which we operate railway systems experience much larger than normal growth in population than has been experienced in the past 20 years, there will be no [R. p. 1061] need for additional street cars. It may be possible, however, that it will be advisable during this period to retire 20 single truck cars by replacing them with light-weight, double truck cars which can be purchased second-hand and rebuilt at a cost of $80,000, and this amount has been included in my estimate covering the capital expenditure on equipment for the coming 15 years. In addition to this item for equipment, we estimate an additional amount of $70,000 will be needed for miscellaneous equipment, making a total of $150,000 for equipment for the 15-year period. Traction and roadway in both cities, with minor exceptions, are in excellent condition and very few major items of construction will be necessary during the coming 15 years according to my information and best judg-

VIRGINIA TRANSPORTATION (Cont'd)

ment. It is certain that no additions will be made to tracks to serve new territory. Such additional service, as would become necessary, will be provided with buses. Tracks in Richmond average about 21 years of age at this time. The greater portion of them are on concrete foundations in pavement and are in such condition as to deliver satisfactory service with normal maintenance beyond the period under consideration. In Norfolk the tracks average 23 years of age and, as is the case in Richmond, a great portion of them are on concrete [R. p. 1062] foundations in paved streets. In Norfolk, however, a substantial portion of the tracks, consisting of three long double track lines, one serving a naval operating base and two serving Ocean View, are of heavy rail construction on private rights-of-way. These tracks will last without expensive reconstruction for more than 15 years. The street paving requirements in both cities may require some capital expenditure for track reconstruction and paving costs, but paving programs of a substantial nature on any line will most likely bring about substitution from rail to bus service and the avoidance of the heavy capital expenditure by the railway department for paving. At the present time, as far as we know, there is no plan in view for substantial paving programs in either city. Car barns, shops and storage facilities in both Richmond and Norfolk are in excellent physical condition, entirely suitable for their requirements for the next 15 years, and are, in my judgment, good for more years of service with normal maintenance expenditures. These buildings and facilities are suitable for transfer to the bus department, when and as rail operation is abandoned, and are equally suitable, with modification at small expense, whether the rail operation is abandoned in piecemeal or in one job at the expiration of 15 years. No capital expenditure of consequence will be required in these facilities. [R. p. 1063] Considering all of these facts, it is my judgment that the requirements for gross additions to way and structures accounts during the

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next 15 years will not exceed $600,000, an average of $40,000 a year against an average of about $50,000 a year for the past five years. The transportation department will, therefore, be called upon to furnish new capital for the railway department of $1,750,000 to cover necessary reconstruction and replacement of plant and property during the 15-year period and to cover the cost of removal of tracks and replacement of pavement in both cities at the expiration of the company's Richmond street railway franchise in 1956.

Q. Now, in connection with that question, will you please state Mr. Holtzclaw, whether or not the conclusions which you have therein expressed represent only your own views or has thorough consideration of that problem been given by your staff, particularly in the transportation department? A. The problem has been given considerable consideration by the transportation department executives and engineers and by myself and the conclusion which we have arrived at represents the considered best judgment of all of us.

Q. Mr. Holtzclaw, will you kindly state whether or not, in your judgment, in the light of the company's prospective business, may the gross and net operating revenues of the transportation department for the year 1940 be fairly regarded [R. p. 1064] as a reasonable level for such gross and net operating revenue in the future? A. Before directly answering this question, I should like to describe the situation existing in the territory served by the transportation department, since the conclusions which I shall state are based on the business conditions existing at this time and on the belief that these conditions will be normal for several years to come. The Norfolk Navy Yard located in Portsmouth, Virginia, is one of the largest navy yards in the country and is engaged in a shipbuilding program of great magnitude. Employment in the yard has increased within the past year from a normal personnel of around 9,000, to nearly 20,000, which we are informed will be further in-

VIRGINIA TRANSPORTATION (Cont'd)

creased to about 25,000 when new shipways and docks are completed and the construction program is well under way. This means that the population of Portsmouth may be expected to double. The naval operating base at Norfolk has been greatly expanded as to its facilities and personnel and the Norfolk naval air station is under construction by the Navy at the expense of many millions of dollars. Mr. Anderson, city attorney of Norfolk has already stated in these proceedings that the population of Norfolk has been increased by 60,000 people within recent months. [R. p. 1065] This is an increase of over 40 percent in Norfolk population. If the announced plans of the United States Government are carried out and the construction of a so-called two-ocean navy becomes a reality, activities in and around Norfolk and Portsmouth will continue at the present level or higher for many years, since Norfolk is headquarters of the Fifth Naval District and, according to published reports, will be headquarters of the Atlantic fleet. This alone would mean a further increase in the stable population of Norfolk and Portsmouth of many thousands of people and an intermittent increase of many more thousands as naval vessels call at the base port. Based upon these facts, it is quite probable that the 1940 level of transportation department's gross and net revenues will be exceeded by the average of the next 15 years.

Q. Right there, in that connection, were you present when the evidence was presented to Mr. T. Norman Jones, Jr., as to the operations of the railway in the transportation department of the company for the first three months of the year 1941? A. I was present and I will touch on that subject a little later in answering your question.

Q. All right, proceed.

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[R. p. 1066] The Witness: According to Engineers' Exhibit No. 6, introduced by Mr. Mitchell, 1940 gross operating revenues of the transportation department were $5,027,426,

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VIRGINIA TRANSPORTATION (Cont'd)

an increase of nearly $400,000 over 1939. Net operating revenues for 1940 were $1,552,329, an increase of over $230,000 over 1939. The average of gross operating revenues for the past five years, 1936 to 1940, inclusive, as calculated from this same exhibit, has been $4,559,510 and the average for the past 15 years has been $4,901,227. The average of net operating revenues for the past five years was $1,394,067 and for the past 15 years $1,614,964. Indications of what is to be expected from transportation revenue is shown from the figures taken from the company's operating budget for 1941, Exhibit 41, which estimates gross operating revenues for the transportation department for 1941 at $5,600,000 and net operating revenues at $1,845,000. Actual results for the first three months of 1941 have exceeded the estimated results for the three months in case of both gross operating revenues and net operating revenues. Present indications are that gross operating revenues for 1941 will exceed $5,750,000 and that net operating revenues will exceed $1,900,000. The trend in transportation revenues has been definitely up since 1933 and is even more sharply in '40 and in '41. Regardless of what happens in Europe, it is quite evident [R. p. 1067] that the present level of activities in this area will continue for many years to come and, based upon this view which I hold, I state that it is my considered judgment that the gross and net operating revenues for the year '40 may be fairly regarded as a reasonable level for estimating gross and net operating revenues for the coming 15 years.

Q. (By Mr. Moore) Mr. Holtzclaw, are there any items of expense borne by or chargeable to the transportation department of the company, assuming now for this purpose that the method of allocating interdepartmental expenses, joint use facilities, and so forth for the year 1940, as shown on Mr. Taylor's Engineer's Exhibit 63, is proper, which would have to be absorbed by the electric and other depart-

ments if the company were required to divest itself of its transportation business; and if so, will you please present the facts on this point at this time? A. There are many items of expense now borne jointly by the several departments of the company's operations, electric, gas, and transportation, which would have to be absorbed by the electric and gas departments if the company is required to divest itself of its transportation business. In reply to your question, I shall concern myself principally with those items which are taken from Mr. Taylor's exhibit and upon which he has testified in these proceedings. We have made a careful examination of Mr. Taylor's report [R. p. 1068] and of the items referred to therein which are now jointly borne by the several departments of the company, and I have satisfied myself as to certain of these expenses which would have to be borne by the other two departments if the transportation department is disposed of. If transportation is disposed of, the other departments will have to absorb the following expenses:

Compensation to employees in lieu of free passes	$105,625
Executive and office pay roll	66,133
Pensions	39,370
Joint use of facilities	16,981
Miscellaneous expenses	15,843
Total	$243,952

An explanation of those items is as follows: Compensation to employees in lieu of free passes. Free passes are now given to all employees of the electric and gas departments, which passes give these employees the right to unlimited transportation on the company's street cars and buses in Richmond, Norfolk, Portsmouth and Petersburg. There are 1,625 employees in the electric and gas departments, according to Mr. Taylor's report, and it will

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be necessary, in my opinion, to increase the compensation of each of these 1,625 employees by the amount of $65.00 per year, the equivalent of $1.25 per week per employee.

Q. That is, it is that number that enjoys the use of [R. p. 1069] the transportation pass? A. In the cities where we operate transportation.

Q. By the way, in that connection, will you just make a brief explanation right there about the matter that was discussed at cross-examination so much yesterday afternoon as to the extent to which those passes are given? Does the man that works for the company in Fredericksburg, Virginia, or these other districts outside of the cities of Richmond, Norfolk, Petersburg get a pass? A. He does not.

Q. All right, just proceed then with your story. A. The total cost of this additional compensation to the electric and gas department employees is $105,625. This figure does not agree with the figure used in Mr. Taylor's report, for the reason that Mr. Taylor treated the free pass matter as if it were an interdepartmental book transaction. I have treated it as an out-of-pocket expense, which the electric and gas departments will have to assume to fully compensate their employees for the loss of the pass privilege in case of sale of the transportation business to another corporation. Executive and General Office Pay Roll: A careful study has been made of the allocated pay roll for the year 1940 in order to determine which, if any, of the employees in the several departments could be dispensed with in the event the [R. p. 1070] transportation department is disposed of. There are 16 executives on the executive pay roll, none of whom could be dispensed with. The portion of their salaries now allocated to the transportation department in Mr. Taylor's report is $30,661. It would be necessary for the other two departments to absorb this entire pay roll. On the pay roll covering junior executives, supervisors and general office clerks, there are 121

VIRGINIA TRANSPORTATION (Cont'd)

employees whose total annual salary in 1940 was $158,997. Of this amount, $38,381 has been allocated in Mr. Taylor's report to the transportation department. We estimate that if the transportation department is disposed of, this pay roll could be reduced by $16,400, representing the salaries of 14 general office clerks. This leaves $21,981 to be absorbed by the electric and gas departments. On the pay roll covering janitors, maids and building employees, there are 51 employees with total compensation in 1940 of $32,473, of which, according to Mr. Taylor's report, $7,159 is allocated to the transportation department. It will not be possible to eliminate any of these employees in case of disposal of the transportation department, which leaves $7,159 to be absorbed by the electric and gas departments. On the miscellaneous pay roll which we shall call special apportionment roll, there are 45 employees whose compensation in 1940 amounted to $68,993. This pay roll is not allocated [R. p. 1071] on the basis of gross or net or any other arbitrary method but on a definite allocation depending upon the actual amount of time spent in the various departmental activities in each individual case. The proportion of this pay roll allocated by Mr. Taylor to the transportation department was $7,532. It is estimated that only the equivalent of one full-time employee can be eliminated in case of disposal of the transportation department, leaving $6,332 to be absorbed by the other departments. Pensions: For many years the company has had in effect a pension program involving the payment of varying amounts to pensioned employees, which amounts depended on length of service and compensation at the time of retirement. During the year 1940, the pension roll of the company amounted to $60,560. Pension payments are direct charges to each department to the extent of over 99 percent of the total. If the transportation department were disposed of, it would be necessary for the other departments to absorb the pension roll of the transportation

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department employees, which amounted in 1940 to $39,370. Joint Use of Facilities: In Mr. Taylor's testimony, he has discussed at great length the item of joint use of facilities, on which there has been no departmental allocation in Virginia Electric and Power Company in the past. On the basis of his report there is an amount of $16,981 charged to the [R. p. 1072] transportation department covering these items which would have to be absorbed by the electric and gas departments in the event of disposal of the transportation department. These items are:

General office building and storeroom	$ 8,912.00
Jointly used poles and rights-of-way	3,927.50
Jointly used manholes	915.35
General office and storeroom furniture and equipment	3,226.14
	$16,980.99

Miscellaneous Expenses: In the figures which Mr. Taylor used, there is an item of $79,613.23, representing miscellaneous expenses composed of, principally, donations, transfer fees, trustee fees, Vepcovian magazine expense, telephone expense, dues and subscriptions. There has been allocated to the transportation department $17,596 as its portion of these principal items of miscellaneous expenses. In our opinion, all of these miscellaneous expenses would be continued and absorbed by the other two departments, with the exception of a reduction in telephone expenses of approximately $1,752 for transportation department telephones, leaving a total to be absorbed by the electric and gas departments of $15,843.

The sum of these five classifications is $243,952. It is, therefore, in my judgment, a conservative statement of facts that approximately $244,000 in additional expense now properly borne by the transportation department would have to be absorbed [R. p. 1073] by the electric and

gas departments if the company is required to divest itself of the transportation department. Undoubtedly, there are other miscellaneous expenses which would come to light on a complete detailed audit of the company's operating expenses.

Q. Mr. Holtzclaw, assuming, as appears from the evidence in this proceeding, that the street railway franchises of the company covering its operations in the cities of Richmond and Norfolk expire in Richmond in 1956 and the principal franchise in Norfolk in 1944, and that the franchises are not assignable by the company without the consent of each city affected, and further assuming that the company's motor bus operations in the cities of Richmond, Norfolk, Portsmouth and Petersburg are in each instance conducted under general ordinances, not in the form of contracts, which are terminable at any time at the pleasure of the city, in the light of your experience in the operation of these properties and your dealings with the city authorities in each of these cities, what is your considered judgment as to the conditions which would have to be met by the company or any purchaser from the company in order to obtain the consent of any of these municipalities to transfer the company's transportation business to some independent company?

* * * * *

[R. p. 1074] A. I have had one definite experience in the past few years, wherein I have witnessed the reaction of city officials to a proposal to dispose of our company's transportation system to another concern. The City of Petersburg, Virginia, and the proposed purchaser of our system was a local company which operated the interurban line between Petersburg and Hopewell. Our small Petersburg system was not prosperous and it seemed to us and to the local interurban company that a transfer of our property to the local company might make it possible for the combination to produce better operating results. The mat-

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VIRGINIA TRANSPORTATION (Cont'd)

ter was taken up with the Mayor of Petersburg and the City Council at a meeting called for that purpose and the proposal for the transfer laid before them. After hearing the presentation of the case from our company and the proposed purchaser, the Mayor and the City Council stated to us in a posi [R. p. 1075] tive manner that the Council would not agree to our company's transferring its transportation system in Petersburg to another company. No formal reply was given our company outlining the reasons for the Council's action, but comments by the Mayor and members of the Council indicated clearly to us that the Council felt it to be in the interest of the city and the people to have the transportation system in the same hands as the electric system, and that the city was in a much better position to demand and enforce good service if the system operated under such conditions than if the transportation system were operated by a separate corporation. It is my opinion that a similar reaction would occur if a similar proposal were made to any of the other three cities. It is reasonable to expect that any purchaser of the company's transportation system would be required to meet service requirements similar to those now required of our company—that discontinuance of unprofitable lines would not be permitted simply because they were of themselves unprofitable. The resolution of the City Council of Norfolk is an indication of the view of the cities on this matter and our discussion of the matter with officials of other cities indicates a similar feeling.

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J. G. HOLTZCLAW

Cross Examination

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[R. p. 1172] Q. (By Mr. Fischgrund) Would you indicate what the amount was for the paving and the amount during the past five years that was for replacement of property? A.

VIRGINIA TRANSPORTATION (Cont'd)

Suppose I give you first the total way and structure account for the past five years. 1936, $80,736.41. 1937, $17,835.99. 1938, $13,204.16. 1939, $89,882.32. 1940, $54,497.21. Now the item of paving in each of those years, that is account No. 511, paving. 1936, $509.74. 1937, $6,163.20. 1938, $4,769.57. 1939, $24,444.98. 1940, $4,980.66. Now it is impossible for me to state whether these items cover new paving or whether they cover the replacement of old paving. I am quite sure there are some of both in them.

Q. Did you base your estimate as to the amount that would be required for replacement of equipment, the amount required for [R. p. 1173] removal of tracks and replacement of street paving in the next fifteen years upon the amount of the replacements in paving required during the past five years? A. I estimated, had an engineering survey made, rather, of the total cost of removing all tracks in both Richmond and Norfolk and replacing the street and the pavement in accordance with the plans approved by the Department of Public Works of each city. That is estimated to be $968,000 and I have called it a round million. As to equipment, I stated definitely in my answer that having bought 87 new cars in the past three or four years, it would not, in my opinion, be necessary to further increase the rolling stock of the Railway Department. Therefore, I allowed $80,000 for 20 cars to replace 20 light weight single rock cars. I allowed $70,000 over the next fifteen years for miscellaneous equipment which is primarily automobiles and trucks for the Railway Department, practically nothing else in that account. Some furniture and office equipment. As to track and ways and structures account, I allowed $600,000, which is $50,000 a year, which is $3,000 a year more than its average for the past five years. Taking out contribution made to the construction of new concrete bridge over the Lafayette River in Norfolk, and taking out some other item which I don't recall right now, gave us an average of $47,000 a [R. p. 1174] year for the past five years. Now it is my best

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judgment that $50,000 a year for the same group of accounts for the next fifteen years is ample in view of the fact that from year to year a certain section of the Railway will be abandoned, buses will be substituted, and we judge that $50,000 a year is more than ample to cover the ways and structures account.

Q. You contemplate that the change from railway to bus will be gradual over the next fifteen years? A. I do. We have no changes in contemplation right at the present time, but I imagine that in the next fifteen years several of the feeder type railway lines will be abandoned and buses substituted, whenever a large capital expenditure seems ahead of us for either new paving or paving replacements.

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[R. p. 1181] Q. Then why doesn't the Company change from railway to bus? A. The Company is in the electric business. The electric business and rail business are naturally correlated—a natural joint operation.

Q. I believe then you testified that if the cost of electric energy supplied to the Railway Department were charged to the Transportation Department, the amount that was charged to that department should be increased by $110,580, did you not? A. I think that is about the figure, yes.

Q. So that because you have electric operations and transportation operations, the Electric Department was standing $110,000 of the cost of energy supplied to the Transportation Department? A. That is right. On Mr. Taylor's basis of allocation that is true.

Q. That was on your basis of allocation of electric energy, was it not? A. That is right.

Q. Not Mr. Taylor's? A. On the rate which I gave him, yes, and he allocated it. That is correct.

Q. You computed the rate and the amount, didn't you? A. That is right.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Mr. Taylor didn't compute anything on that, did he? [R. p. 1182] A. No.

Q. If you believe that no one who purchased the Transportation Department would continue the railway operations, then why did you testify on May 7 that if the Company sold its Transportation Department, it would expect to receive, I believe, $110,580 more than the amount charged on the books of the Company for electric energy supplied to the Transportation Department? A. I beg your pardon. That was an interdepartmental transaction between two departments of Virginia Electric & Power Company.

Q. Upon what do you base your opinion that no one would continue to operate the Railway properties if they purchased the Transportation Department? A. That has been the history of railway departments as far as I know, up to the present time, and my judgment is that they would not consider street railway.

Q. Because it is more economical to operate the buses? A. No, not necessarily. It is possibly more economical for an independent outside corporation to operate it, but as a correlated operation with electric, it is just as economical to operate a street railway.

Q. It is correlated, Mr. Holtzclaw, in that the Electric Department is able to withstand $110,000 of the expenses for the sale of energy to the Transportation Department? [R. p. 1183] A. No. Correlated means joint operation of the two with the use of the same facilities and personnel. It has no reference to how these accounts may have been charged on the books in the past.

Q. But if an independent company could operate the Transportation Department with no more expenses for personnel and facilities than allocated to the Transportation Department in Mr. Taylor's report, then is it your opinion that they would abandon the railway property because they wouldn't be able to withstand the $110,000 in increased charges for the use of electricity, which the Company would

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have to make, in order to cover the cost of electricity supplied to that Transportation Department? A. No, that isn't the reason. It is just my opinion that they would discontinue the rail operation and change over to bus.

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[R. p. 1271] Q. (By Mr. Fischgrund) Now referring to the item of pensions, as to which you testified that the amount paid by the company in pensions during 1940 was $60,560, of which $39,370 consisted of pensions to transportation employees, do you recall, Mr. Holtzclaw? A. I think that that is the correct figure, yes, sir.

Q. And pensions are charged directly to each department, is that correct? A. To the extent of over 99 per cent of their total.

Q. Depending on whether or not the pension is paid to a transportation employee or to an electric employee? A. That is correct, or a gas employee.

Q. Why couldn't the pension obligation to the transportation employees follow the transportation department if it [R. p. 1272] were disposed of? A. In the first place, the man that earned the pension was working for the Virginia Electric and Power Company, and I don't believe we could sell that to the purchaser, it would be nice if we could.

Q. In the case of transportation department employees, they earned their pensions working for the transportation department of the Virginia Electric and Power Company, then? A. No, working for the Virginia Electric and Power Company, and not for the transportation department.

Q. And his pension is allocated to the transportation department? A. Yes, sir.

Q. And that employee earned his pension while he was working in the transportation department of the Virginia Electric and Power Company? A. That is true, and the Virginia Electric and Power Company will assume it.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Is there still any reason, Mr. Holtzclaw, why the amount of pensions paid to employees who earned their pensions working for the transportation department, could not carry on as an obligation of the transportation department upon its being sold? A. A very excellent reason.

Q. What is that? [R. p. 1273] A. He earned his pension working for the Virginia Electric and Power Company, and the Virginia Electric and Power Company would expect to continue his pension.

Q. You mean that it is the policy of the company to carry on the pensions, but not that it couldn't be made an obligation of the purchaser upon the sale; is that your statement? A. In the first place, the purchaser wouldn't assume it, in my judgment; and in the second place, I think it is an obligation of the Virginia Electric and Power Company.

Q. If the purchaser didn't assume it, then that would be a decrease in the amount of the transportation department's expenses by $39,370, would it not?

The Witness: Repeat the question, please.

(The question is read.)

The Witness: If the purchaser didn't assume it, it would be an increase in the expenses of the other two departments, of $39,370.

Q. (By Mr. Fischgrund) And the amount of $39,370, which is shown on the books of the company as a transportation department expense for pensions, would be wiped out of the income statement of the purchaser, when he looked at that income statement in purchasing it, would it not? A. I don't understand that, either. Read it, please.

(The question is read.)

[R. p. 1274] Q. (By Mr. Fischgrund) Well, this $39,370 would be an increase in the expenses of the electric and gas departments, and it would necessarily also be a decrease in

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expenses of the transportation department? A. In case the transportation were sold, yes.

Q. So that when the purchaser considered the purchase of the transportation department he would not consider that there would be a $39,370 expense for pensions? A. I don't think he would.

Q. Well, he necessarily would not? A. He necessarily would not.

Q. And because he would not, it would enable the company to perhaps get a better price on the sale of the transportation department, would it not? A. Well, it certainly would enable the company to get a better price to the extent of $39,370.

Q. Not the extent of $39,370— A. (Interposing) Whatever that $39,370 would do in the way of having an effect on the price.

Q. If you were seeking to sell the transportation department, wouldn't you at the outset ask the purchaser to assume that obligation of $39,370 as pension expense? A. It seems to me it would be entirely unreasonable to assume it.

[R. p. 1275] Q. If you didn't ask him to assume it, then you would be sure that you got enough increase in the price, by the elimination of that expense, to at least pay off the transportation pensioners on their life expectancy, wouldn't you? A. I don't think that amount of money would have that effect on the price we would get for the transportation department, if we sold it today on an order from the Securities and Exchange Commission to divest ourselves of it. The purchaser would note that that $39,000 which appears in our expenses, would not appear in his expenses. It would have very little effect on the price.

Q. You don't think that $39,000, more or less, in the net income of the transportation department, would have anything to do with the price? A. It might make enough

difference to pay off the pensions for one year, maybe two. I don't know what effect it would have.

Q. Would you bargain to get enough to pay off the pensions during the life expectancy of the pensioners? A. No indeed.

Q. Why wouldn't you? A. Not enough money.

Q. Because you don't think you could get it, is that right? A. Of course you couldn't, I am quite sure you couldn't.

[R. p. 1276] Q. If there were five—$40,000 expenses in the transportation department which might be eliminated upon the sale of the transportation department, would you anticipate that you could perhaps only get $200,000 more in the sale of the transportation department? A. I have no idea what we could get for the transportation of the Virginia Electric and Power Company.

Q. You know then, that the elimination of the pensions from the transportation department would have an effect on the price, but you don't know how much effect that would have on the price? A. If any.

Q. Why wouldn't it have any effect? A. I don't know whether it would or not, it wouldn't have very much.

Q. Wouldn't it make a big difference to you, if you were considering the purchase of the transportation department, whether or not there were $39,000 in expenses that you would not have to bear, or if there were $39,000 more in expenses over that department's income statement, that you would have to bear? A. Just to the extent of $39,000 out of a total of $5,000,000 of revenue.

Q. It would have the same effect as any other dollar of net income of the transportation department, in figuring how much you would pay by capitalizing earnings, would it not? [R. p. 1277] A. Some of these transportation companies are sold for just their net earnings, but I don't know what this would do. I haven't any idea what we could sell it for, and we have never attempted to find out.

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VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 1399] W. H. RUDISILL

called as a witness on behalf of the Commission, having been previously sworn, resumed the stand and testified as follows:

* * * * *

Cross Examination

* * * * *

[R. p. 1457] Q. (By Mr. Moore) Mr. Rudisill, have you formed any opinion as to the electric system of Virginia Electric Power Company?

Mr. Lester: He has answered that question on direct.

Mr. Moore: Not in this way; I don't think.

The Witness: I have, I think that it is interconnected and it is well managed and efficiently operated.

Q. (By Mr. Moore) Have you formed any opinion as to whether or not it is confined in its operation to a single area, to one area in the States of Virginia and North Carolina? A. I believe that the territory is homogenous, as I said before, geographically, geologically, agriculturally and industrially.

Q. Have you formed any opinion as to the personnel of the Virginia Electric and Power Company? A. I have already said the property was well operated.

Q. Now, having in mind the location of the various properties as was shown on one of the exhibits that you filed this afternoon, and in view of your contact with the organization [R. p. 1458] on your recent examination of the properties, did you form any opinion as to whether or not the company had a strong local organization, whether the officers and the officials and the employees were familiar with the local problems and in touch with the local situation? A. Yes, I think that the type of organization that the company has is well adapted to the territory that it is serving and the business that it is doing; that the operators

J. G. Holtzclaw—Cross Examination (Cont.)

J. G. Holtzclaw—Re-Direct Examination

VIRGINIA TRANSPORTATION (Cont'd)

are well qualified and are familiar with their duties; certainly.

Q. Did you find that the officials and employees were apparently and thoroughly familiar with the local problems throughout the entire area and in touch with the local situation generally?

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[R. p. 1458] The Witness: As far as I was able to ascertain, they were.

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J. G. HOLTZCLAW

Further Cross Examination

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(By Mr. Fischgrund)

[R. p. 2108] Q. Mr. Holtzclaw, in your opinion, are the company's bus operations at Petersburg coordinated with the rest of the transportation properties? A. They are coordinated with the operations in Richmond to the extent that the interurban buses operated between Richmond and Petersburg connect with each of the transportation systems, one in Petersburg and one in Richmond.

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J. G. HOLTZCLAW

Re-direct Examination

[R. p. 2122] Q. (By Mr. Moore) Mr. Holtzclaw, you have stated several times during your examination that it was your firm opinion that any purchaser of the transportation property of your company would, as soon as possible, shift over the entire operation to bus operation completely. What would be the type of purchaser that would normally be found for such operation? A. I think the type of pur-

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chaser that we would expect to find for such on operation would be the type of purchaser that has bought similar operations within the past several years, that is, the large bus operators, something like National City Lines, for instance, who bought quite a few in the United States in the past few years.

Q. Would the type of purchaser that might be expected to be found be one who was an experienced street railway operator? A. Judging from the past several years, I would say he would be strongly a bus operator.

Q. Well, would that, to some extent, affect the judgment that you have expressed? A. Of course that is one of the foundations of my opinion that street railway operation would be abandoned. The trend is very definitely away from street railway [R. p. 2123] operation to bus operation. The trend is that way in our own company and other companies with which I am familiar, although we are taking a longer time to do it than a purchaser would take, in my opinion.

Q. Does the fact that there is a wide variation in the amount of capital that is required to carry on the rail operation as compared with the bus operation enter into that matter? A. From the standpoint of the original investment required of course there is a tremendous difference in the amount of capital required. From the standpoint of the purchase of a system such as ours the capital required, of course, is the amount of money required to buy, plus the amount of money required to equip it.

Q. Which one of the operations requires the greater amount of capital per dollar revenue? A. Per dollar revenue the street railway is somewheres about $5, and the bus operation somewhere between $1 and $2, nearer $1.

* * * * *

[R. p. 2126] Q. Now referring to the bus operation at Petersburg, is that operation coordinated in any respect

with the Richmond transportation and Norfolk transportation and Portsmouth transportation businesses of your company? A. Our entire transportation operation is coordinated in that it has the same management, the same officials, the same labor agreement, the same wages, the same general operating conditions.

Q. Are there the same wage levels, as a matter of fact, in Petersburg as in Richmond and Norfolk and Portsmouth on your transportation system? A. I thought I mentioned that they have the same wage levels all over the entire system.

Q. Have you a labor contract with some labor organization which bargains for the entire transportation group of employees? A. We have a labor contract that bargains for the entire group of employees all over the system.

Q. Do you know whether there are transfers granted to and from the Petersburg bus operation to the Interurban bus operation and then from the Interurban bus to the Richmond bus? [R. p. 2127] A. There are transfers granted under some conditions but I am not sure what the conditions are. They are not universal.

Q. They are tied together, though, through transfers actually in operation to that extent? A. That is correct.

* * * * *

[R. p. 2130] Q. Now, Mr. Holtzclaw, you stated that some two months ago you had discussed with the officials of the city of Richmond the matter of possible divestment of your company of its transportation business in Richmond? A. I did.

Q. Who was the city official with whom you discussed this matter? A. The mayor of the city and the city attorney.

Q. What was your purpose in discussing the matter with them? A. To advise them of this proceeding, this hearing to be held, and outlined to them the law under which the hearing was being called, the Public Utility Act of 1935,

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and what the possible outcome might be, for whatever use they saw fit to make of the information.

Q. Do you recall you furnished to them a copy of the original show-cause order in this proceeding issued in February, 1940, and a copy of the answer of the Respondents in that proceeding? A. That is true, and a copy of the act under which the hearing was held.

Q. What was their attitude in regard to the matter? A. The attitude of both the mayor and city attorney [R. p. 2131] was that they would very much dislike to see anything happen that would cause it to bring about the divestment of the transportation operation of the Virginia Power Company in Richmond.

Q. Now, do you recall any discussion with the city officials in Norfolk in regard to this proceeding? Did you have any discussion with them? A. I had no discussion with the mayor of Norfolk. I had a discussion with the city attorney at the time he came up to Washington to appear in this proceeding.

Q. Do you recall he stated that he had been given notice of this proceeding by Mr. Lester, Commission counsel, and it was on that account that he opened up the discussion of the matter with company representatives? A. That is correct. I think he so stated when the Commission counsel questioned him.

Q. Did you find that Commission counsel had given any notice to the city officials in Richmond in regard to this proceeding? A. My recollection is that the city of Richmond had not received one, according to the information given me.

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[R. p. 2160] Q. Mr. Holtzclaw, I will now return to the question which provoked quite a lot of discussion and ask you this question: You have testified in this proceeding that there are certain items of expense borne which are chargeable to the transportation department of the company

which would have to be absorbed by the electric and gas department if the company were required to divest itself of the transportation business. This testimony appears on pages 1067 to 1073 of the record. Will you state how you arrived at the conclusion that these additional expenses and charges would have to be borne by the electric and gas departments? A. I assumed that the company had apportioned departmental expenses and joint use of facilities for the year 1940 as Mr. Taylor has done in his report, which is Engineers' Exhibit No. 63. That this was an unreasonable assumption is borne out by the fact that on May 14, 1941, which was several days after I testified in this proceeding,— [R. p. 2161] Q. (Interposing) It was the next day as a matter of fact. A. I think it was the next day.

(Continuing) —the board of directors requested Lybrand, Ross Bros. & Montgomery to make a further and more detailed study of the company's operations, including a time study, and to report to the company their recommendations as to apportionment of expenses between departments. The directors further directed that such recommendations be put into effect by the company as of July 1, 1941. The result of this action of the board of directors will be to place the method of apportioning inter-departmental expenses and charges on the basis recommended by Mr. Taylor.

Q. Mr. Holtzclaw, do you have a certified copy of the May 14, 1941, resolutions of the board of directors of Virginia Electric and Power Company to which you have referred? A. Yes.

Mr. Moore: I now offer a copy of these resolutions of the board of directors of Virginia Electric and Power Company as Engineers' Exhibit No. 124.

The Examiner: Without objection a copy of the resolution is admitted as Engineers' Exhibit 124.

(The document referred to was received in evidence as Engineers' Exhibit No. 124.)

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VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 2162] Q. Mr. Holtzclaw, will you please continue with your examination of your previous testimony? A. Referring to Page 1068 of the transcript, it will be seen that I testified that expenses of the electric and gas departments would be increased by $243,952 if the transportation department were disposed of. I showed this $243,952 to consist of the following:

• • • • •

Compensation to employees in lieu of free passes	$105,625
Executive and office payroll	66,133
Pensions	39,370
Joint use of facilities	16,981
Miscellaneous Expenses	15,843
Total	$243,952

[R. p. 2163] (By Mr. Moore) Will you explain how you arrived at the figure $66,133 of additional executive and office payroll which would have to be absorbed by the electric and gas departments if the transportation department were disposed of? A. In my previous testimony which appears on pages 1068-70 of the transcript, I explained that I had taken the joint payroll and, after careful consideration with the assistant comptroller, decided how much of that payroll which is now being borne by the transportation department could be dispensed with if that department were sold. I have had prepared a tabulation which shows in detail the following payrolls:

1. Executives.

2. Junior executives, supervisors and general office clerks.

3. Janitors, maids and building employees.

4. Special apportionment.

VIRGINIA TRANSPORTATION (Cont'd)

This tabulation shows the total of each of these payrolls, the amount of each payroll now charged to the transportation department as per the Taylor Report, the estimated reduction in each payroll if the transportation department were disposed of, and the amount in each case which is borne by the transportation department and which could not be dispensed with if that department were sold. This tabulation, [R. p. 2164] together with my previous testimony, explains fully how the $66,133 figure was arrived at.

Mr. Moore: Mr. Examiner, we now offer this tabulation as Engineers' Exhibit 125.

* * * * *

[R. p. 2165] The Examiner: The tabulation is admitted under the number which you mentioned, Engineers' Exhibit 125.

(The document referred to was received in evidence as Engineers' Exhibit No. 125.)

Q. (By Mr. Moore) Where does this $66,133 of payroll expense which would have to be absorbed by the electric and gas departments [R. p. 2166] if the transportation department were disposed of, appear in the Taylor Report? A. Referring to the third column in line 1 of page 6, of the Taylor Report, which is Engineers' Exhibit No. 63, it will be seen that Mr. Taylor has charged $75,829.47 to the transportation department. That is on the top third column, top of the page. As I understand it, this figure represents a reapportionment on a gross operating revenue basis of certain items of joint expenses which have heretofore been allocated by the company on a net operating revenue basis. This $75,829.47 does not represent the total of such joint expenses borne by the transportation department, but is only the increase to the transportation department as a result of Mr. Taylor's reapportionment. That

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part of the $66,133 which represents apportionment of this payroll expense on a net operating revenue basis is included in the items of operating expenses for the transportation department as shown in the last column on page 4 of Mr. Taylor's report; the remainder of this $66,133 which represents the increase in charges to the transportation department as a result of the change in the method of apportionment from a net operating revenue basis to a gross operating revenue basis is included in the $75,829.47 figure in the first line on page 6 of Mr. Taylor's report.

[R. p. 2167] Q. In other words, a part of that $66,133 is represented by the increase in the apportionment which Mr. Taylor has made on page 6 and the remainder appears in the transportation department expenses on page 4. Is that right? Do you understand that? A. That is correct.

Q. Mr. Holtzclaw, will you please explain the $15,843 of miscellaneous expenses which you testified would have to be borne by the electric and gas departments if the transportation department is disposed of? A. This figure $15,843 is made up of the transportation department's proportionate share of the following expenses: donations, $5,968.78; transfer fees, $1,613.92; expenses of publication of "Vepcovian" magazine, $698.64; telephone expense, $6,752.35; dues and subscriptions, $2,562.00. These produce a total of $17,595.69, but there will be a reduction in telephone expense upon the sale of the transportation department which would amount to $1,752.35, leaving a total expense to be borne by the other departments of $15,843.34.

Q. Mr. Holtzclaw, have you prepared a tabulation which shows the total amount of these miscellaneous expenses for the year 1940, the amount charged to the transportation department as per the Taylor Report and the amount of such expenses charged to the transportation department which would have to be borne by the electric and gas departments if the transportation [R. p. 2168] department

VIRGINIA TRANSPORTATION (Cont'd)

were disposed of? A. Yes, I have such a tabulation, which was prepared by Mr. Taylor at my request.

Q. Do you believe this tabulation to be correct? A. Yes.

Mr. Moore: Mr. Examiner, we would now like to file this tabulation as Engineers' Exhibit No. 126, this tabulation showing miscellaneous expenses apportioned to the transportation department as per the Taylor Report which would have to be borne by the electric and gas departments if the transportation department were disposed of.

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[R. p. 2169] Q. Will you just state to what extent you have checked this? A. I examined it in detail with our assistant comptroller, assisting me, and we are both of the belief that it is correct.

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[R. p. 2170] The Examiner: It is received with that understanding as Engineers' Exhibit No. 126.

(The document referred to was received in evidence as Engineers' Exhibit No. 126.)

Q. (By Mr. Moore) Where does this $15,843 appear in the Taylor Report? A. As in the case of the $66,133 of executive and office payroll expenses, which would have to be absorbed by the electric and gas departments, this $15,843.44 does not appear as a separate item in the Taylor Report; a part of it is included in the $75,829.47 of expenses which were reapportioned by Mr. Taylor from a net operating revenue basis to a gross operating revenue basis, and the balance is included in the expense items which appear in the last column on page 4 of the Taylor Report.

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[R. p. 2175] Q. Mr. Holtzclaw, in referring to your computation of expenses which would have to be absorbed by the electric and gas departments, so far as the previous

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question is concerned, were you referring to the item of $16,980.99 only? A. Referring——

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[R. p. 2176] The Witness: I was.

Q. (By Mr. Moore) Mr. Holtzclaw, how did you arrive at the figure [R. p. 2177] of $39,370 for pensions which would have to be borne by the electric and gas departments if the transportation department were disposed of?

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[R. p. 2178] The Witness: As I have testified before on page 1071 of the record, pension payments are a direct charge to each department to the extent of 99 percent of the total. If the transportation department were disposed of, it would be necessary for the company to absorb the pension roll of the transportation department employees, which amounted in 1940 to $39,370.

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[R. p. 2179] Q. (By Mr. Moore) Where does this charge to the transportation department for pensions appear in the Taylor Report? A. This charge for pensions does not appear as a separate item in the Taylor Report but is included in the last column on page 4 among the operating expenses of the transportation department.

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Q. (By Mr. Moore) In your analysis of expenses borne by the transportation department which would have to be absorbed by the electric and gas departments, about which you have heretofore testified, did you take into account any adjustments for those charges appearing on page 6 of Mr. Taylor's report, under the heading "Interdepartmental Services"? A. I did not. In my analysis of the Taylor Report and [R. p. 2180] in the preparation of my testimony, I considered all of the items under "Interdepart-

mental Services" as mere book transactions and not representing cash items.

Q. Now, under those interdepartmental services, you are referring, are you not, to the items "Electricity Furnished to Other Departments," "Gas Furnished to Other Departments," "Free Transportation to Employees," and "Car and Bus Advertising"? A. That is right, those are the items.

Q. Mr. Holtzclaw, there seems to be some confusion in the record as to whether or not the electric department will benefit through the release of 8,330 k.w. capacity if the railway department is abandoned. Can you state whether or not the electric department would benefit if this capacity were released? A. The electric department would not benefit. The electric department would lose income which, assuming the charge for power to be as is set up in the Taylor Report, is collected from street railway customers to pay the carrying charges on 8,330 k.w. capactiy and, therefore, that amount of capacity wiuld be idle in the company's power stations until its load had grown to a point where such excess capacity would be absorbed. Under present conditions, this capacity would be absorbed in a relatively short time.

Q. If this 8,330 k.w. so released were sold to customers who paid a higher rate than that charged the railway [R. p. 2181] department, would that result in any benefit to the electric department? A. No, there would be no benefit to the electric department which it could not obtain even though the 8,330 k.w. were not released by abandonment of the railway. The company, if it today had a customer who desired this 8,330 k.w. capacity, would install additional capacity which would cost it the same amount which it would lose if it lost the carrying charges collected from the riders of the street railway system.

Q. Mr. Holtzclaw, will you discuss the item of interdepartmental services entitled "Free Transportation

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Furnished to Employees"? A. On page 6 of Mr. Taylor's report, the item of "Free Transportation Furnished to Employees" is a charge of $94,400.49 to the electric and gas departments for free transportation furnished employees of those departments. This charge does not represent an out-of-pocket expense to the company but is merely a book transaction and is offset by a corresponding credit to the transportation department of $94,400.49. This $94,400.49 figure is, therefore, a washout on the books of the company, recommended by Mr. Taylor in order that the books will reflect departmental income and expense. The net effect is that the company takes $94,400.49 out of its left pocket and puts it in its right pocket and the only burden on the company is the necessity of making the book [R. p. 2182] entries. But if the company is required to dispose of the transportation department, the burden becomes very real, for the company is placed in the position where it must increase by $5.00 per month the compensation of each of its employees, as I have testified.

Q. Mr. Holtzclaw, have you in compliance with the request of Commission counsel obtained information as to the extent to which free transportation, if any, was provided by Baton Rouge Electric Company and Eastern Texas Electric Company, predecessors of Gulf States Utilities Company, to electric and gas employees of those companies at the time the passes were discontinued upon transfer of the transportation properties of Baton Rouge Electric Company to Baton Rouge Bus Company, Inc., in 1938 and the sale of the transportation properties in Beaumont, Texas of Eastern Texas Electric Company in 1937? A. Yes. There appears on pages 1612 to 1614 of the transcript in this proceeding, testimony by Mr. L. V. Smith regarding this matter insofar as concerns the employees of Baton Rouge Electric Company at Baton Rouge, Louisiana. His testimony shows that 370 employees were given passes, that the average monthly riding per employee was nine

rides at five cents per ride, and that the value of free transportation in Baton Rouge was 45 cents per month per employee having passes. [R. p. 2183] I have been informed by officials of the Gulf States Utilities Company that the situation at Beaumont, Texas, at the time of the sale of the transportation properties of Eastern Texas Electric Company, was as follows: During the year 1937 in which the transportation properties were sold, the average number of employees in the Beaumont area was 302, of which only 89 joint-use employees working for both the electric and transportation departments were given transportation passes. The average number of rides per month by these 89 employees having passes was 3,275. The average monthly riding per employee was 37 rides at 6 cents per ride, or a total value of $2.22 per month per employee having passes. It appears that neither in Beaumont or Baton Rouge was any direct increase in compensation made to employees having such free transportation by reason of the withdrawal of such passes, and that at Beaumont the number of employees receiving such free transportation was comparatively small in comparison with the total number of employees in that city.

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[R. p. 2185] Q. Mr. Holtzclaw, are you familiar with Mr. Leonard's testimony in the Gulf case 1586 to 1591 of that transcript? A. I have read it.

[R. p. 2186] Q. Mr. Holtzclaw, will you state whether or not, in your judgment, either of those situations, that is, at Baton Rouge or Beaumont, is fairly comparable to the situation which your company would be confronted with if the transportation properties, that is of your company, were disposed of? A. In my opinion, the situation existing in Baton Rouge and Beaumont was entirely different from the situation which our company will face if the transportation properties are disposed of. Whereas in Beaumont,

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VIRGINIA TRANSPORTATION (Cont'd)

as I previously mentioned, passes were given to only a few joint-use employees, it is the practice of our company to give free transportation to all regular employees of the company in the cities where transportation service is operated by the company. In the second place, the districts served by our transportation facilities in Virginia, in the case of Richmond and Norfolk, are so much larger than those served by the transportation systems in Beaumont and Baton Rouge that there is much greater use made of the free transportation privilege and the pass has established a much greater value among the employees of Virginia Electric and Power Company than it ever had in Beaumont and Baton Rouge. Mr. Taylor testified on pages 946 and 1100-01 of the transcript——

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[R. p. 2187] Q. (By Mr. Moore) Do you know how many employees of the company working in the electric and gas departments were given free transportation passes? A. Sixteen hundred twenty-five, approximately.

Q. Now, do you know what the check that was made by Mr. Taylor and his associates as to the extent of the rides of employees in Richmond and in Norfolk showed to be the fact per month, what was the average number of rides per pass per employee in Richmond? A. Richmond 60 per month and 65 in Norfolk.

Q. And what is the monthly value of the passes of the employees riding in Richmond? A. Richmond, $4.40 and Norfolk $5.40. These figures compare with nine rides and 45 cents per month in Baton Rouge and 37 rides and $2.22 per month in Beaumont.

Q. Now, will you proceed with your statement, if you have anything further on this point? A. In the next place, our employees not only have attached a great deal of value to the passes which the company for many years has furnished, but, in the company's contract with the labor organ-

VIRGINIA TRANSPORTATION (Cont'd)

ization which since 1937 has been the bargaining agency for all of its non-supervisory employees, the employees have insisted that there be included in the contract a specific provision which guarantees to them a continuation [R. p. 2188] of the free transportation privilege. I quote from the Articles of Agreement:

"The employer agrees to continue during the term of this agreement its present practices with respect to (a) the issuance to employees of free transportation privileges on its street railway cars and buses * * *"

Q. Now there is a star after "buses" and before the quote closes, isn't there? A. That is right, that refers to other privileges that are to be continued.

* * * * *

[R. p. 2189] Q. (By Mr. Moore) Will you proceed, Mr. Holtzclaw, with your statement at this point? A. In view of this provision, there is no doubt whatever in my mind that we would find it necessary to make the $105,625 wage adjustment, to which I have testified, if the transportation properties are disposed of.

Q. Now, do you intend to limit that conclusion just to the wage agreement or are there other factors, also, on which you rested? A. I testified that our employees are apparently using the passes at an average of about $5 per month, the average of Richmond and Norfolk and Petersburg together. They have considered this free transportation as a part of their compensation and I think the company is bound to continue it.

[R. p. 2190] Q. Independent of the agreement, do you think that you would have to make the adjustment of that compensation to which you testified, if the privileges were withdrawn? A. That is my opinion.

Q. Mr. Holtzclaw, will you please tell us what effect you have given to the item "Car and Bus Advertising" on page 6 of Mr. Taylor's report? A. The item of "Car and Bus

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VIRGINIA TRANSPORTATION (Cont'd)

Advertising'' shown by Mr. Taylor to be $2,075.33, represents a charge to the electric and gas departments for advertising in the transportation department's streetcars and buses. As in the case of free transportation furnished to employees, this item of $2,075.33 is not an out-of-pocket expense, but is merely a charge to the electric and gas departments which is offset on the books of the company by a corresponding credit to the transportation department.

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J. G. HOLTZCLAW

Re-cross Examination

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[R. p. 2192] (Q. (By Mr. Fischgrund) Now, I believe you testified, Mr. Holtzclaw, that the board of directors requested Lybrand, Ross Bros. & [R. p. 2193] Montgomery to make a further study as to interdepartmental allocation of expense? A. I did.

Q. The company directed that that further study be made because it was felt that the study that had been made was inadequate? A. I testified the previous time when I was on the stand and Mr. Taylor testified, I think, that it was not known that the particular method of allocation used by the company at the present time was incorrect although he believed the gross method was better. I testified that there were many items of so-called gross charges or interdepartmental expenses which had not been given consideration and the idea is to have a complete and thorough check made, including a time-study base, on which we can determine our method of interdepartmental allocation in the future.

Mr. Fischgrund: Will you please repeat the question?

(Whereupon, the pending question was read by the reporter.)

VIRGINIA TRANSPORTATION (Cont'd)

The Witness: It was not felt that the study that had been made was inadequate but that no study has been made to definitely determine what is a proper method of allocation. To that extent it was inadequate.

Q. (By Mr. Fischgrund) What did you mean when you said no study had been [R. p. 2194] made to determine the proper method of allocating expenses between departments? Didn't Mr. Taylor previously make a study for that purpose? A. Mr. Taylor, according to my understanding, used a gross method rather than a net method, because, as he stated, that is a more generally accepted method.

Q. Do I understand that the board adopted the recommendations that Mr. Taylor is to make in his final study or the recommendations that he has made? A. The recommendations that he will make in the final study I am quite sure will be what goes into effect as of July 1.

Q. In other words, the board adopted recommendations before they knew what they were? A. We have the resolution in the file instructing Lybrand, Ross Bros. & Montgomery to make a further study and to come back with recommendations as to what the company should do.

Q. Why did the board of directors, if you know, direct that the method of allocation to be recommended by Mr. Taylor be adopted? A. The officers recommended that it be adopted.

Q. Why did they recommend it? A. It was quite evident that the method we have used in the past does not properly segregate certain joint expenses between departments. It is the idea of the officers to get [R. p. 2195] apportionment on a correct basis.

Q. Why didn't they get that idea any time during the past ten years? A. Because during the past ten years, until the question of possible divestment of some of these departments came up, we always considered that those were cross charges and interdepartmental charges that had no effect on the final results of the company and it didn't make

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much difference how they were charged, so they were charged what was reasonably deemed to be correct.

Q. It had some effect in determining the net income of each department, did it not? A. It did, some effect.

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T. NORMAN JONES

Re-direct Examination

[R. p. 2212] Q. (By Mr. Moore) Mr. Jones, on pages 700 and 704 of the transcript, you stated that during 1940 there were 41,264,960 revenue passengers carried on the busses of the company, and 41,612,429 revenue passengers carried on street cars, and that approximately 346,000 more passengers were handled on street cars [R. p. 2213] than on busses. Have you examined the transcript in respect to that matter? A. I have.

Q. Have you any correction to make in those figures? A. I would like to make a correction in those figures to the extent——

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[R. p. 2214] (By Mr. Moore) Q. Will you go ahead now and answer the question? A. I have found that I used a figure of revenue passengers that was made up of the revenue passengers in Richmond, Norfolk, Portsmouth, and Petersburg, and did not include the revenue passengers on the interurban line, so I have corrected the figures or I wish to correct them to the extent of adding the 223,752 revenue riders on the interurban line to the 41,264,960 revenue passengers which I reported when previously on the stand, making a total of revenue passengers handled by the busses in 1940 of 41,488,712.

Q. That is instead of 41,264,960? A. Instead of 41,264,960 which I reported. That 41,488,712 bus passengers compares with 41,612,429 revenue passengers on the rail-

way in 1940, or a difference of 123,717 more revenue passengers on the railway than on the bus.

Q. Percentagewise, almost the same percentage, is that correct? There seems to be almost the same percentage of total passengers carried on the busses as on the street cars, isn't that correct? A. Approximately the same.

Q. About 50 percent on each? A. About.

Q. Mr. Jones, on page 700 of the transcript, you stated [R. p. 2215] that the present rate of return on bus operations was approximately 2.6 percent, and on page 705 of the transcript you stated that if the railway were abandoned and the operations were changed over to all bus, the rate of return would be approximately the same, 2.6 percent. Have you checked the transcript on that point? A. I have.

Q. Have you any correction you wish to make in the figures here? A. I wish to make a correction. In developing the rate of return, I deducted from the gross revenues the operating expenses.

Q. Which rate of return are you talking about? A. For the bus, I deducted the operating expenses amounting to $2,153,386, leaving a balance of $426,930, and from that figure I deducted $237,348, leaving a balance of $189,528 after depreciation. In the depreciation and in operating expenses I used the figure as revised by Mr. Taylor. Mr. Taylor then made a deduction of $102,316 for Federal taxes, interest, and amortization of bonds and other income which I mentioned in my testimony, leaving a balance of $87,266.

Q. That was the final balance left for bus operation? A. That was the final balance left on Mr. Taylor's report. I used that figure in developing the rate of return [R. p. 2216] of 2.6 percent.

Q. For busses? A. For busses. I was in error there in that Mr. Taylor's figure of $102,316 which he deducted to get his balance, there was a figure of $72,488 representing interest and amortization on bonds which should not have

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been deducted in arriving at a rate of return on the investment in question. By excluding that item, we have a balance on which the rate of return should be calculated of $159,754 which shows a rate of return of 4.82 percent instead of 2.6 percent. That, of course, carries over into the figure on the combined operations in the event all railways were converted into bus, which I said, in my opinion, would produce a total value of about $7,000,000.

Q. You said that would be—— A. (Interposing) I said that the revenues, expenses, depreciation, and so on would be approximately for the same passengers as they had been for the bus and, therefore, approximately the same rate of return would be found.

Q. You stated on page 705 of the transcript that after transportation operations had been completely converted to all bus, approximately that same 2.6 percent rate of return might be expected on the operation. Now, in making that statement, did you carry over the same error? A. Yes, I intended my comment made just a moment ago [R. p. 2217] to so indicate that it did carry over into that figure which represented a total investment in buses, return on the total investment in busses.

Q. So where you referred to a rate of return on the bus operation alone on pages 699 and 700 of the transcript and described that as a rate of 2.6 percent, you would like to substitute what rate of return for that figure? A. Approximately 4.82 percent.

Q. Now, on page 705, where you referred to the rate of return on the bus operation after there had been a complete conversion to all busses, as 2.6 percent, you would like to correct that figure to what figure? A. The rate of 4.82 percent on the combined bus operation.

Q. In other words, the error in both instances arises out of the fact that the amount of $72,488 representing interest and amortization on bonds should not have been deducted? A. That is right.

VIRGINIA TRANSPORTATION (Cont'd)

Q. Before you figured the rate of return? A. That is correct.

Mr. Moore: That is all.

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T. NORMAN JONES

Re-cross Examination

Q. (By Mr. Fischgrund) Mr. Jones, when was it that some of the interurban [R. p. 2218] railway was abandoned, in about 1936? A. 1936, the interurban was abandoned as a railway line. A few miles of it, the Richmond end, was included in the Richmond system. The bus operation operated out of Richmond for Petersburg following in the main the old route, branching off a few miles out of Richmond some 8 or 10 miles to another road and then later getting back on the No. 1 route again.

Q. In other words, the railway was abandoned and replaced with bus? A. The interurban line was completely abandoned. The section of the track nearest to Richmond and connecting to Richmond tracks was made a part of the Richmond system and the passes, tickets, the cash applicable to the Richmond city lines were applicable on the few miles of track on the Richmond end of what was formerly the interurban line.

Q. When the company operated the interurban railway line, many employees used it, did they not? A. You mean with passes?

Q. Yes. A. I think there never has been a time since I have been connected with the company that they have not done that.

Q. And after it was abandoned, the employees do not use it since there is no interurban line? A. They could not use the rail line, but those employees [R. p. 2219] who lived adjacent to or near the portion of the interurban

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rail line that was made a part of the city line were able to continue using free transporation on that particular section. Those who lived beyond the end of that portion of rail line which was formerly part of the interurban line now served by busses are dependent on the bus passes.

Q. And those who may have been located or lived beyond where the company now supplies bus service in place of the former interurban railway line, of course cannot use free transportation because there is no free transportation supplied on that portion of the line? A. They have quarterly passes where they can show there is any need for them.

Q. Where was this interurban line that was abandoned in 1936, between what cities? A. It operated between Richmond and Petersburg.

Q. And now the company does not operate any transportation service between Richmond and Petersburg? A. It operates a bus transportation service between Richmond and Petersburg.

Mr. Moore: It was a substitute service?

The Witness: As a matter of fact, we have one bus that operates between the heart of the city of Richmond over the No. 1 route to Petersburg terminal, and then this bus line that was substituted for the railway line, that [R. p. 2220] operates from Hull Street and Cowardin Avenue to Petersburg terminal.

Q. Has the company abandoned any railway or bus line in the past five years, that is, any major lines or service areas? A. The Petersburg lines were abandoned in 1936.

Q. That is the line running— A. (Interposing) The Petersburg city lines were discontinued as a rail operation and bus service substituted.

Q. I had in mind the abandonment of all transportation service in a locality where the company previously supplied transportation service. A. No, there has been no abandonment. There has been no abandonment of service. There

VIRGINIA TRANSPORTATION (Cont'd)

has been some rerouting. For example, at the Naval Base, between the Naval Base and Ocean View, we operated for many years a rail line that was known as the Mason's Creek line. Many years ago that was converted into a bus line which followed substantially the same route as the rail line. Due to the tremendous activity of the Naval Base and the fact they are constructing new roads and new buildings and what not all over the site of what was formerly the road which we used for bus operations, we are now operating the Mason's Creek line only a short distance out of Ocean View and then we have another bus service [R. p. 2221] that operates over an entirely different route from Ocean View into the Naval Base, which was all brought about by conditions over which we had no control.

Q. How much farther did the Mason's Creek line go before it was rerouted? A. It operated through the Naval Base to the ferry at the foot of Ninety-ninth Street.

Q. How much farther in miles would that be? A. Well, I think the route over which we operate today is—well, I expect it is probably 2½ miles or 3 miles longer than the old route. We formerly operated almost a straight line between Ocean View and the Ninety-ninth Street pier. Now, we come down to Ocean View almost at right angles to that line and for some distance, probably a mile, mile and a half, and then we go back over to a point very near the end of the former line.

Q. How much distance would you say there was between the farthest point between the old line and the new line, about a mile and a half, three miles? A. Between the end of the old Mason's Creek line?

Q. No, between the farthest point between the old line and the new line? A. I guess a mile and a quarter, a mile, mile and a quarter. It was not practicable to go any other route because of the fact the Naval Base has taken over so much [R. p. 2222] territory in that vicinity that there is no shorter route which we can traverse and we

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have to go on the only open roadway, which is Granby Street and Taussig Boulevard—I think it is called, named after Admiral Taussig—which enters Granby Street near the Virginia Railroad and then goes in a northerly direction to what is known as the east gate of the Naval Base. They won't let us operate busses in the Base any more. That is the Mason's Creek bus. We still operate a shuttle bus inside the Base but that is for the convenience of the people inside the Base.

Q. In other words, the section or the locality where the company previously operated its direct line is now occupied by the Naval Base? A. Practically all of it.

Mr. Fischgrund: That is all.

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T. NORMAN JONES

Further Re-direct Examination

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Q. (By Mr. Moore) Mr. Jones, in connection with the two bus lines operated between Richmond and Petersburg, are we to understand that the employees who had passes on the interurban railway simply changed over to passes on those substituted bus lines? A. Passes on the No. 2 bus route, which is a substituted bus route for the rail route.

[R. p. 2223] Q. That follows the same route? A. They were not given passes on the No. 1 route which never had passes.

Q. When the rail line was abandoned, will you state whether one of the conditions imposed by the State Commission was that there should be substitution bus service as a condition attached to that? A. That was a condition of the substitution.

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VIRGINIA TRANSPORTATION (Cont'd)

[R. p. 2225] DONALD C. BARNES

called as a witness on behalf of Respondent, being first duly sworn, was examined and testified as follows:

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[R. p. 2226] Q. (By Mr. Moore) Will you please give your full name and address? A. Donald C. Barnes, 90 Broad Street, New York, New York.

Q. What positions do you hold in the Engineers Public Service Company? A. I am president and director of Engineers Public Service Company.

Mr. Moore: It is my intention to qualify Mr. Barnes as an expert electrical engineer, utility operator and utility financial expert.

Q. (By Mr. Moore) Mr. Barnes, will you please give me an outline of your professional education and experience? A. I received a degree of Bachelor of Arts cum laude at Harvard in 1902, a degree of Bachelor of Science in Electrical Engineering magna cum laude in 1904.

After a year with Ford, Bacon & Davis, I entered the Statistics Department of Stone & Webster and was employed in various capacities by operating public utility companies under their supervision in Abington and Brockton, Massachusetts; Pawtucket, Rhode Island, and Seattle Washington, and in the Boston office of Stone & Webster until 1931.

From 1931 until 1933, I was vice president of Engineers [R. p. 2227] Public Service Company and of various of its subsidiaries.

From 1934 to 1937, I was vice president of Stone & Webster Service Corporation and an executive and/or director of various companies receiving services from that corporation.

In December 1937, I resigned all connections with Stone & Webster Service Corporation and any companies owned

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Donald C. Barnes—Direct Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

or supervised by Stone & Webster and became president and director of Engineers Public Service Company and Engineers Public Service Company, Inc., the mutual service company, and vice president and director of several of its subsidiaries.

During the period from 1911 until 1919 I had direct charge of the transportation operations of Seattle-Everett Traction Company, which operated an electric interurban railway between Seattle and Everett, Washington and of Puget Sound International Railway and Power Company and its successor, Puget Sound Power & Light Company, consisting of a street railway operation in the City of Everett, Washington and an interurban railway operation between the cities of Everett and Snohomish.

During the period from 1924 to 1931 I supervised among other utility operations the transportation business of Tampa Electric Company, Florida Motor Lines, Jacksonville Traction Company, Savannah Electric and Power Company, Columbus Electric and Power Company, North Coast Transportation Company, and Puget Sound Power & Light Company.

[R. p. 2228] Since December 1937 the transportation operations of the subsidiary companies of Engineers Public Service Company have come under my supervision, including those of a respondent, Virginia Electric and Power Company.

For the past 17 years I have participated in the supervision of utility operations having gross revenues of over $50,000,000 annually and during that period I have participated in a supervisory capacity in the issue of approximately $310,000,000 of various classes of public utility securities.

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(By Mr. Moore)

[R. p. 2232] Q. Mr. Barnes, you referred to "incremental costs" in your previous answer as distinguished from

VIRGINIA TRANSPORTATION (Cont'd)

"allocated costs." Just what do you mean by "incremental costs"? A. Incremental costs represent out-of-pocket expenses and charges which the company incurs as a result of continuing business, or which it would be relieved of if the business were discontinued, whereas allocated costs represent a proportion of expenses and charges irrespective of whether or not they would continue if the company were disposed of.

Q. Mr. Barnes, have you made a study, including among other things, consideration of the evidence adduced in this case through Mr. Holtzclaw and Mr. Taylor with respect to expenses properly chargeable to the Transportation Department and future replacement requirements of the Railway Department and your own personal knowledge of Virginia Electric and Power Company's business, to determine the net annual increment cash accruing to the company from its transportation operations based on the level of 1940 earnings and, if so, please present the results of this study at this time? A. I think the statement submitted as Engineers' [R. p. 2233] Exhibit 63 by Mr. Taylor giving the results of a study by Lybrand, Ross Bros. & Montgomery of the operations of the Transportation Department for the year 1940 is pertinent to this question. It shows on page 5 that after allocation of joint expenses on the basis adopted by these accountants these operations contributed approximately $113,000 to the gross income of the company. It is true that this statement also shows that the Bus Division contributed some $160,000 to the gross income and the Railway Division was operated at a loss of $47,000, but the two services are interdependent and should be so considered. Included in the deductions made by the auditors before arriving at the figure of $113,000 is an item which does not represent cash, namely, the accrual for depreciation of $583,000 allocated to the Railway Division, a substantial part of which represents return of capital to the owners of the company, since the railway property, speak-

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VIRGINIA TRANSPORTATION (Cont'd)

ing generally, will not be replaced in kind when it wears out or is abandoned. Mr. Holtzclaw testified that a study of the cash requirements of the Railway Division for replacements during the next 15 years shows they would average $50,000 annually. Furthermore, in the allocation of joint expenses of these transportation operations, there are certain charges which, if the Transportation Department were disposed of, would have to be [R. p. 2234] borne by the remaining operations of the company, principally the light and power system. Mr. Holtzclaw has testified that these items aggregate some $244,000 annually. Of this amount, $94,000 has been charged to light and power and gas expenses and credited to transportation revenues by Mr. Taylor. In addition, Mr. Taylor charged light and power and gas expenses some $2,000 for car and bus advertising. Thus the net book increase—as distinguished from cash increase—in light and power and gas expenses would be $148,000 and would reduce the company's Federal income tax liability by $44,000, assuming a tax rate of 30 percent, which rate the company is now using for its accruals. These two items, namely, $94,000 and $2,000 for employee transportation and for advertising respectively are not cash revenue to the company and should be excluded. Adding up all of the items which I have discussed, the net annual increment cash from the transportation operations available to the company based on the level of 1940 earnings is some $750,000.

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[R. p. 2238] Q. (By Mr. Moore) Mr. Barnes, have you made an analysis of the value to Virginia Electric and Power Company of its transportation business, if it is permitted to retain this business for the next fifteen years, as compared with the amount which might reasonably be expected to be realized if the company undertook at this time to sell or otherwise dispose of its transportation properties and business and, if so, please present at this time

VIRGINIA TRANSPORTATION (Cont'd)

the results of this study? A. I have prepared an analysis of the value to Virginia Electric and Power Company of its transportation business based on the 1940 level of operations and a comparison of this value with an estimate of what might be realized if [R. p. 2239] the company attempted to sell this transportation business.

Mr. Moore: Mr. Examiner, we now offer this exhibit for identification as Engineers' Exhibit No. 128.

The Examiner: It will be so marked for identification.

(The document referred to was marked Engineers' Exhibit No. 128 for identification.)

Q. (By Mr. Moore) Will you continue, Mr. Barnes, and explain this exhibit? A. This exhibit shows the various items of annual increment cash available to Virginia Electric and Power Company from transportation operations to which I have previously testified amounting to some $750,000 annually. If the company continues to operate this business and if earnings continue at the 1940 level and assuming further a remaining life of the existing railway property of fifteen years, the present worth at 6 per cent of this annual income is $7,284,000. In addition, assuming that the transportation business is to be sold at the end of fifteen years on the basis which we estimate it would bring, if sold today, its present worth is $880,000, or a total present worth of the transportation business to Virginia Electric and Power Company of $8,164,000. The second computation is the determination of the estimated sale's realization if the transportation business were disposed of at this time. The basis used in this exhibit for [R. p. 2240] this determination is as follows: The present net operating revenue before depreciation as determined by Lybrand, Ross Bros. & Montgomery is $935,000. Based on my knowledge and observation of the market value of similar properties, such earnings are valued at approxi-

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VIRGINIA TRANSPORTATION (Cont'd)

mately six times where service is furnished by bus operation. Applying this factor to the Virginia earnings gives a valuation of $5,610,000 for a system completely equipped with buses. The estimated cost of converting the Virginia system from railway to bus based on the assumption that 325 buses would be required is $2,500,000 and in addition the purchaser would have to assume the cost of abandonment of railway operations—which consists principally of paving—estimated at $1,000,000. With these out-of-pocket costs aggregating $3,500,000 the estimated market value would, therefore, be $2,110,000. This market value would be augmented as a result of savings in income taxes. The tax base of the transportation assets at this time is approximately $4,915,000. If the property were sold for $2,110,000, the company would suffer a deductible loss of $2,805,000. Assuming that the tax rate for Federal corporate income taxes for the year 1941 s 30 per cent, which is the basis the company is using for accrual, the company would effect a saving of $842,000 in its income tax liability for the calendar year 1941, on the assumption that the property was sold in this year. Thus the aggregate [R. p. 2241] sale's realization would be $2,952,000. Summarized, this exhibit shows the present worth of the transportation business to the company, if the company continues to operate it for 15 years on the 1940 level of earnings, to be $8,164,000 as compared with an estimated sale's realization, if sold on the basis of its estimated market value and giving effect to Federal tax savings, of $2,952,000. The item of $8,164,000, predicated as it is on 1940 conditions continuing for 15 years, is subject to variations up or down, depending on what conditions are actually realized in the future, but the margin of difference between that amount and the estimated sale's realization is so great that, in my opinion, no foreseeable variation could wipe it out and may in fact increase it.

Mr. Moore: Mr. Examiner, we now offer this as Engineers' Exhibit 128.

VIRGINIA TRANSPORTATION (Cont'd)

The Examiner: Let it come in under that number.

(Engineers' Exhibit No. 128 for identification, was received in evidence.)

Q. (By Mr. Moore) Mr. Barnes, you understand that Mr. Taylor has been authorized by the Directors of Virginia Electric and Power Company to make, and is now engaged in making, a revision of the figures which were submitted in Engineers' Exhibit 63, based on a time study of joint employees to be [R. p. 2242] used as a basis of allocation in substitution of the method of allocation on the basis of gross earnings which he used in this exhibit. What effect, if any, will the changes which he makes as a result of this study have on your conclusion? A. To the extent that this revision changes the allocation of cost of joint employees whose salaries will have to be absorbed by the Electric and Gas Departments, there will be no net effect on the figures which I have used, because any reductions or increases in the allocations of such employees will be offset by corresponding increases or reductions in the gross income of the Transportation Department, so that the annual incremental cash from transportation operations will not be affected. However, any change affecting the gross income of the Transportation Department will affect the estimated sale's realization to the extent of six times the amount of such change. In other words, if as a result of his revision, net operating revenues are increased, the estimated sale's realization will be increased six times the amount of such increase and, correspondingly, if his revision reduces net operating revenues, the estimated sale's realization will be reduced by six times the amount of such reduction. Such revision will also affect the amount to be realized from Federal income tax savings to the extent of 30 percent of the change up or down, as the case may be, in the total sale [R. p. 2243] price of the transportation system. In other words, if his adjustment

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VIRGINIA TRANSPORTATION (Cont'd)

results in a decrease in net operating revenue, this will correspondingly reduce the estimated sale price, and this in turn would serve to increase the amount of the Federal tax saving to the extent of 30 percent of the decrease in the estimated sale price, and vice versa, if his revision results in an increase in net operating revenue it will serve to decrease the amount of the Federal tax saving to the extent of 30 percent of the increase of the estimated sale price.

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Q. Mr. Barnes, it appears from Engineers' Exhibit 9 [R. p. 2244] that as of December 31, 1940 the book value of the transportation property, railway and bus combined, was $13,560,960. Based on Engineers' Exhibit 128, and with particular reference to the item shown thereon as annual incremental cash from transportation operations available in the amount of $750,000, based on the level of 1940 operations, within what period of time would the company recover the amount at which the transportation property was carried on the books as of December 31, 1940? A. If this annual incremental cash from transportation operations of $750,000 is invested in the light and power operations and earns a 6 percent return, it will amount to the total book value of the transportation property in 12.6 years. In other words the amount of an annuity of $750,000 at 6 percent interest would be $13,560,960 in 12.6 years.

Q. In other words, in substantially less than the 15-year period to which you referred the company would actually recover the full book value of the entire transportation property, if it is permitted to retain the transportation business? A. That is correct.

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VIRGINIA TRANSPORTATION (Cont'd)

DONALD C. BARNES

Cross Examination

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(By Mr. Fischgrund)

[R. p. 2258] Q. The transportation department would become such a burden when and if it operated at a net loss? [R. p. 2259] A. Yes. To answer your question specifically, if the $750,000 of net increment in cash were wiped out, I would say that from that point on the transportation operations would become a burden on the company and would, from that time on, result in imposing a burden on the light and power and gas operations but, as I testified, at this time I see no prospect of any such condition developing.

Q. You would not say, would you, that the railway division operating as it does at a net loss, is a burden on the bus operations, would you? A. No, I do not think it is a burden on the bus operations.

Q. Because you regard the two operations as interdependent? A. That is correct. I regard it as really a single business, namely, the transportation business, part of it being done by street cars and part being done by automobile busses. It is just the same as if you had delivery wagons, some of them driven by horses and some by automobiles. It is all part of the delivery service.

Q. You will note in the Taylor Report and as you testified that the gross income of the bus division for 1940 was approximately $160,000 and that the gross income of the railway division was approximately $47,000 in the red?

Mr. Moore: Would you mind reading that question again? [R. p. 2260] I think you did not say what you meant.

Mr. Tucker: You said gross, you meant net?

The Witness: No, gross income.

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(Whereupon, the pending question was read by the Reporter.)

Mr. Moore: Gross income?

The Witness: Gross income is correct.

Mr. Moore: All right.

Q. (By Mr. Fischgrund) And also you testified that the book value of the transportation property account amounted to some $13,561,000? A. Are you through with the question?

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Mr. Moore: He said that Engineers' Exhibit No. 9 showed that to be the fact.

Mr. Fischgrund: Showed that the transportation property account was $13,561,000?

Mr. Moore: That is right.

Q. (By Mr. Fischgrund) Now, Mr. Barnes, deducting the $47,000 of railway gross income deficit from the $160,000 of bus income leaves a balance of $113,000, does it not? A. It does.

Q. Which represents a return of .83 percent on the amount of the transportation investment— [R. p. 2261] A. (Interposing) Are you asking me if it does or are you telling me?

Q. I am stating that as a fact. If you find any reason to believe that it isn't— A. (Interposing) I haven't made the computation but it looks as if it might be about that.

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[R. p. 2268] Q. Do you contemplate that if the company continued operating as it does now for the next fifteen years, that after fifteen years there would suddenly be a change from railway to bus or that gradually, over that period, there would be a change from railway to bus? [R. p. 2269] A. My expectation would be, based on the present outlook, that the existing rail system would last

pretty nearly intact for the fifteen year period; that at the end of that time, it might be expected the system would be changed over possibly in a period of a year, from rail operation to bus operation. It is impossible to predict, with accuracy, when that time would occur. I think Mr. Jones testified that, in his opinion, the bulk of the transportation service now furnished by rail would be so furnished for a further period of fifteen years. When the change is made on a wholesale basis from rail to bus operation, it probably will be done within a period of a year or a year and a half.

Q. In effect then, what you mean is that since this change is comtemplated fifteen years hence, by allowing the railway to remain with the electric light and power operations, the electric light and power department can absorb the accrual to take care of the change in the future? A. Is that the end of your question?

Q. (Continuing) By the amount of cash obtained from the railway department representing depreciation, is that not correct, Mr. Barnes? A. It is not correct, if I understand the question correctly. The replacement of rail operations by busses at the end [R. p. 2270] of fifteen years will have imposed no burden whatever on the light and power department. The company is accruing cash from its transportation operations to the extent of $750,000 a year. It elects, rather than to put that money in the bank and get no return on it, to invest it in its light and power business. That is no burden to the light and power business because the light and power business, if it did not get the money from that source, would have to sell securities and raise the money from the public or have its parent, if it then has one, make a capital contribution, as it has done in the past, so that at the end of fifteen years, the light and power department will not have been burdened. The company will be in a financial position to

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Donald C. Barnes—Cross Examination (Cont.)

VIRGINIA TRANSPORTATION (Cont'd)

obtain the cash necessary for the replacement of the rail operation.

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[R. p. 2272] Q. And a purchaser of the transportation department similarly, if cash depreciation monies were invested in other securities for the next fifteen years, could issue securities against the investment in such other securities, to finance the conversion from railway to bus? A. He could do that or he could sell the securities that he bought for his depreciation fund. I do not know why he would make an investment trust out of himself and sell securities against his securities.

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Q. Now, in determining the present worth of the transportation department to the company as distinguished from a sale, you assumed that the transportation properties would immediately be converted into bus operations upon sale? A. I did.

Q. And in so doing, you used $935,000 of net operating revenue before depreciation which represents net operating revenue of both the railway and the bus departments, does it [R. p. 2273] not? A. That is correct.

Q. Don't you believe that if the railway operations were converted to bus operations, there would be more gross revenues and more net operating revenues after such conversion? A. I do not know of any reason why there should be more gross operating revenues after the conversion to bus than before conversion to bus. Street cars offer, in my judgment, as attractive a means of transportation as the busses do, and I see no reason why the substitution of busses for street cars would, in any way, tend to improve the transportation receipts of the company. The total operating expenses of the railway division were $1,915,000 in the year 1940. They carried substantially the same number of passengers on the street cars as were carried on the

VIRGINIA TRANSPORTATION (Cont'd)

busses during that year. The total operating expenses of the busses were $2,177,000 in that year so that actually, on a cost-per-passenger basis, the bus operation is somewhat more expensive than the railway operation even before depreciation so that I think, in using the figure of $935,000, if I erred at all, I have erred on the side of inflating the price that might be expected from the sale of the transportation properties rather than understating it.

Q. At present, the railway department showed a net income before depreciation of some $536,000, using the figures [R. p. 2274] in Mr. Taylor's Report? A. The figure which I have is $532,000.

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Q. How much would you say, Mr. Barnes, the railway properties are worth? A. That depends on who they are worth to.

Q. Would you say that they are not worth anything to anyone beside the company? A. I do not think you could find anybody to buy them for the purpose of operating them. I will explain that if you would like to have me.

Q. If you would very briefly, Mr. Barnes, please. A. The financial history of street railway transportation operations for the last ten years has shown an extremely bad record. It has been full of receiverships, reorganization and disaster. As a result, in my opinion, it is practically impossible at this time to find any public market for the financing of street railway operations.

Q. The reason that you do not think you could sell the railway properties as they are is the fact that railways, generally, have a very bad record throughout the country? A. Street railways, yes, sir.

Q. And the reason they have a bad record is that the [R. p. 2275] investment cost of a railway, that is the amount of the investment originally necessary for the railway was

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very high compared to present-day earnings, is that not true? A. That was one reason for the disaster that overtook the street railway business. It had a large amount of capital invested in providing transportation service and, as a result of private automobile competition, it lost a substantial amount of its business and was not able to earn a return on the investment required to provide the facilities.

Q. It had not only a high amount of investment but it had a large amount of debt which it could not meet? A. Some companies had large amounts of debt and some had moderate amounts of debt. They have all been in difficulty.

Q. Does that mean that a railway system which showed a net income before depreciation of $540,000 with a reasonable prospect of such income for the next ten years or more, could not be sold, if it may not be necessary to saddle a large investment cost or a large amount of debt upon the company? A. In my judgment, anybody who wanted to purchase a transportation system and I assume you refer to the railway system in Virginia from your figure of $540,000, because the balance of earnings before depreciation of Virginia is $532,000, would not be able to raise the capital necessary to finance the purchase of such a system.

Q. You think he could finance the raising of capital [R. p. 2276] to purchase a bus system even though there was no more net income before depreciation from the bus operations? A. Yes, I think he could.

Q. In your opinion, would it be good business for one purchasing the transportation department of Virginia Electric and Power Company to spend $3,500,000 immediately upon such purchase to obtain new busses when he could not obtain any more gross revenues or net operating revenues from the replacement of the railway with busses? A. I do not think he could finance the purchase of the transportation business unless he financed it on the basis of 100 percent bus operation. I do not think he could

VIRGINIA TRANSPORTATION (Cont'd)

raise the money to finance a continuance of the street railway operation.

Q. Assuming, Mr. Barnes, however, that it would not be necessary for him to raise the money, from an operating standpoint only, would you consider it advisable to invest $3,500,000 more in the transportation operations immediately upon acquisition when no more money in net operating revenues could be obtained as a result of the investment? A. Obviously not or I would recommend to the Virginia directors that they authorize the immediate substitution of bus transportation for rail operation in Virginia.

Q. You did so authorize it? A. Obviously not or I would ask the directors to authorize it.

[R. p. 2277] Q. I did not get that. A. I said obviously I did not think it was advisable to substitute busses for railway or I would ask the directors of Virginia Electric and Power Company to authorize it now.

Q. The only reason that you think that the capital necessary to purchase the transportation department of the company and operate it as it is being operated could not be obtained is that railway operations of the country generally have a black record?

The Witness: Will you read that back?

(Whereupon, the pending question was read by the Reporter.)

The Witness: Yes, I think that is the fundamental reason why capital is not available for investment in street railway operations.

[R. p. 2278] Q. (By Mr. Fischgrund) Do you think if anyone invested their money or any bank invested its money in the bus and railway properties to be operated as they are now, that that money would be any less secure, as a matter of fact, than if it were invested in solely bus properties? A. I think if money were invested in wholly bus

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operations, it would be more securely invested than it would be if it were invested in partly rail operations and partly in bus operations.

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[R. p. 2278] Q. Have you made a study at all, Mr. Barnes, to determine if any railway systems in the country have been sold during recent years as railway systems and continued in operation as such? A. I do not know of any that have been.

Q. Did you conduct any study at all to determine if any had been so sold? A. Yes; I found certain properties that had been sold and converted to bus operation but I have not found any properties that have been sold and continued as rail [R. p. 2279] operations.

Q. How did you conduct that study? A. I got the financial reports of companies engaged in the transportation business. The only company that has been active in acquiring transportation operations that I was able to locate was the National City Lines. They have been active in acquiring transportation properties but, in every instance, have converted railway operation to bus operation.

Q. Did you only study the acquisitions by the National City Lines? A. I endeavored to secure information with reference to the acquisition of the Jacksonville Traction Company by City Coach Lines, Inc., but was unable to find any detail as to the basis on which the properties were transferred, but I did find that the transportation operations were changed from rail operation to bus, and I did find the market value of that propetry on the basis of 1939 earnings and market values of securities.

Q. The National City Lines is connected with certain manufacturers of busses, is it not? A. A substantial amount of the preferred stock of the National City Lines was originally subscribed by bus manufacturers. I am informed that of the original issue of preferred [R. p. 2280]

VIRGINIA TRANSPORTATION (Cont'd)

stock, the Mack Truck Company subscribed to $500,000 of preferred stock; the Yellow Coach Company, a subsidiary of General Motors, subscribed to $500,000; Firestone Tire Company subscribed to $400,000; and Phillips Petroleum Company to $300,000. That is a total of $1,700,000. Since that time, there has been a public offering of preferred stock and, according to the financial statement for December 31, 1940, there was outstanding in the hands of the public $3,325,000, of which $1,700,000 represents the amount originally issued to these bus, tire, and oil companies. The remainder of the capital of that company consists of $750,000 par value of Class A common stock and $200,000 of common stock. The company had outstanding on December 31, 1940 $1,938,000 of equipment and other obligations and it had subsidiary debt outstanding in the amount of $234,000.

Q. As a matter of fact, National City Lines is, to your knowledge, controlled by certain bus manufacturers, is it not? A. I do not think it is controlled by them. The computation which I made indicates that they have about 11 per cent of the voting power of National City Lines.

Q. Do you know who has the rest of it? A. There are, I think, about 350—I haven't the figure with me. As I recall it, there are about 350 common stockholders and about the same number of preferred stockholders.

[R. p. 2281] Q. Do you know whether or not the common stockholders are, for the most part, engaged in bus manufacturing, tire or oil businesses? A. I cannot state of my own knowledge but I can state that brokers who issued the preferred stock that was sold to the public stated that the company was not controlled by bus manufacturers. I have no doubt, however, that they may have some important influence in the policies of the National City Lines. I do not know.

Q. Do you know if the City Coach Lines, Inc., is also connected with any bus manufacturers? A. I was not able

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to find out anything further about City Coach Lines, Inc. They are not listed in Moody's Manual.

Q. Did your study embrace any cases in which the transportation properties have been sold to companies other than National City Lines or City Coach Lines, Inc.? A. They were the only ones that I was able to discover unless you want to go back a longer period than within the last 10 years. For instance, the Puget Sound Power and Light Company sold its rail operations to the City of Seattle in 1919. The City of Detroit purchased the street railway line in Detroit shortly after that time, but since those two sales were made, I know of no substantial sales of street railway [R. p. 2282] properties, and I think if there had been, they doubtless would have come to my attention because I am constantly keeping in touch with matters of that kind in connection with the operation of Engineers Public Service Company.

Mr. Lester: Do you know whether or not National City Lines is now actively engaged in buying transportation properties and turning them into bus properties?

The Witness: Yes, I think they still are.

Mr. Lester: Have they ever approached Virginia Electric and Power Company, to your knowledge?

The Witness: The only approach I know of was in connection with Petersburg, and my information is that that was done under the name of the Rex Finance Company or some similar name.

Mr. Lester: I had understood that the Rex Finance Corporation was involved in Gulf States.

The Witness: I may state the fact in connection with the Gulf States area, the property in Beaumont which was formerly owned by Eastern Texas Electric Company, a subsidiary of Engineers Public Service Company, and the properties in Port Arthur and the bus operation between Port Arthur and Beaumont were sold to the National City Lines, and the offer for purchase of the transportation

system in Baton Rouge, it is my understanding, was made by National City Lines.

Q. (By Mr. Fischgrund) You would not say, Mr. Barnes, that your study as [R. p. 2283] to the sale of transportation properties was complete in that it covered every sale of railway or bus properties within the past five years? A. No, I would not say that, because I do not know where to go to get such information.

Q. Was your study of this made quite recently? A. Yes, it was made in connection with this pending issue.

Q. That is, you made it within the past month or two? A. Within the past three months, I would say.

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C. B. TAYLOR

Further Direct Examination

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(By Mr. Moore)

[R. p. 3449] Q. The resolution of the board of directors which you have referred to and which is Engineers' Exhibit 124 required that you make recommendations as to the method of allocating expenses between departments and that such recommendations should be adopted by Virginia Electric and Power Company effective July 1, 1941. Did you make such recommendations and have they been made effective by the company? A. We have made such recommendations and they are embodied in our report dated August 1, 1941. The company has been fully informed by us as to these recommendations as our work proceeded and they are being currently followed in the company's regular accounting procedures since the beginning of July.

Mr. Moore: Mr. Examiner, we now ask that this document [R. p. 3450] be marked for identification as Engineers' Exhibit No. 202 and so received in evidence.

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VIRGINIA TRANSPORTATION (Cont'd)

Mr. Lester: I do not think that it has been properly identified as yet. The witness has not stated that it was prepared under his supervision and direction.

Q. (By Mr. Moore) Mr. Taylor, was this report prepared by you, or under your supervision? A. Both by me and under my supervision.

Q. Do you believe the document to be accurate and correct? A. I do.

Mr. Moore: We now ask that it be marked for identification as Engineers' Exhibit No. 202 and that it be admitted in evidence by that number.

The Examiner: Very well. The report will be admitted in evidence under the exhibit number mentioned.

(Engineers' Exhibit No. 202 was received in evidence.)

Q. (By Mr. Tucker) Will you describe briefly the contents of your report dated August 1, 1941? A. The body of the report is divided into six sections, viz:

I Pay Roll Allocations;

[R. p. 3451] II Joint Expenses;

III Interdepartmental Services;

IV Joint Use of Facilities;

V Merchandise and Jobbing;

VI Bases of Apportionment of Joint Items Should be Reviewed Periodically.

Each section contains our recommendations as to the accounting procedures appropriate to the subject being dealt with. Then follows the departmental income statements for the year 1940 adjusted to give effect to the recommendations made in the preceding part of the report. The first statement shows the income of the company first in total and then classified as between the electric, gas, and transportation departments; the second statement shows the income of the transportation department subdivided into its railway and bus divisions; and the third statement

shows the results of merchandising and jobbing activities in total and also subdivided between electric and gas. A further statement is included to show a reconciliation between net operating revenues per books and net operating revenues shown by the preceding statements. There is also an appendix containing a tabulation of ratios to be used for the year 1941 in allocating the pay roll, where joint employees are concerned.

Q. Will you explain generally in what way this report differs from your report of May 1, 1941, which was marked [R. p. 3452] "Engineers' Exhibit No. 63"? A. Our report of May 1, 1941, was prepared from what data was then available for the purpose of segregating the income of the company for the year 1940 between its electric, gas, and transportation departments. The report of August 1, 1941, was prepared after an extensive study with the view to developing detailed accounting procedures under which the company, commencing July 1, 1941, would be in position to make a complete accounting on its books for the allocation of all joint items to the departments affected, and to merchandise and jobbing. The more important items of difference in departmental net income for the year 1940 shown by the two reports are caused by a more comprehensive pay roll study, use of the common utility plant classification, and substitution of operating and fixed charges for the rental basis in accounting for use of joint buildings, transferring property from one department to another, and introducing fixed charges on buildings to stores and transportation expense clearing accounts. These adjustments in turn cause a change to be made in the allocation of Federal income and capital stock taxes, and to some extent, in interest and amortization of long-term debt. I believe the recommendations contained in the report of August 1, 1941, are such as will enable the company to establish a sound departmental accounting structure, and which, if properly maintained, will [R. p. 3453] permit the results of departmental operations to be fairly reflected on the company's books.

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VIRGINIA TRANSPORTATION (Cont'd)

Q. You mention a change to be made in the allocation of Federal income and capital stock taxes and to some extent in interest and amortization of long-term debt. Do I understand you to mean that you recommended using different bases for the allocation of these items from the bases you used in your report of May 1, 1941? A. The method of allocation recommended as to these items is exactly the same as the method adopted in our report of May 1, 1941. Inasmuch as the Federal income and capital stock taxes are allocated on the basis of the taxable net income of each department, any change in that taxable income necessarily would change the amount to be allocated to each department. In the same way, if a change is made in the amount of property of each department subject to the mortgage, the ratio of apportionment of the interest and amortization of long-term debt would correspondingly change.

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J. G. HOLTZCLAW

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Further Direct Examination

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[R. p. 3959] Q. (By Mr. Moore) Mr. Holtzclaw, you have heretofore testified in this proceeding as to certain items of expense borne by or chargeable to the Transportation Department of the Company which would have to be absorbed by the Electric and Gas Departments if the [R. p. 3960] Company were required to divest itself of its transportation business, this study being based on figures brought out in connection with the Taylor Report of May 1, Engineers' Exhibit No. 63. Have you made further study to determine what effect, if any, the figures in the final Taylor Report of August 1, Engineers' Exhibit No. 202, have upon your previous testimony as to expenses which would have to be

VIRGINIA TRANSPORTATION (Cont'd)

absorbed by the other departments of the company, if the transportation department were disposed of? A. I have.

Q. Mr. Holtzclaw, you previously testified, on pages 1067 to 1073 of the transcript, that the expenses of the Electric and Gas Departments would be increased by $243,952 if the Transportation Department were disposed of; based upon the study which you have made, using figures prepared by Mr. Taylor in connection with his final report of August 1, Engineers' Exhibit 202, what is the figure corresponding to this $243,952, by which the expenses of the Electric and Gas Departments would be increased, if the Transportation Department were disposed of? A. $249,208.

Q. Have you prepared in exhibit form a tabulation showing in detail the result of your study? A. I have.

[R. p. 3961] Q. Does this tabulation in your opinion accurately represent the amount of expense at present being borne by the Transportation Department of your company, which would have to be absorbed by the other departments if your company were required to divest itself of its transportation business? A. It does.

Mr. Moore: Mr. Examiner, we now ask that this tabulation be marked Engineers' Exhibit No. 228 for identification and that it be received in evidence under that number.

The Examiner: It is so received.

(Engineers' Exhibit No. 228 was received in evidence.)

Q. (By Mr. Moore) Then, what is the difference by which the expenses which would have to be absorbed by the Electric and Gas Departments would be increased or decreased as compared with your previous estimates? A. An increase of $5,256.

Q. Is that difference sufficiently large, in your judgment, considering the purpose of your previous testimony on this subject, to make this difference material? A. It is not.

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EXPLANATION WITH RESPECT TO CERTAIN EVIDENCE INCORPORATED IN THE RECORD OF CASE UNDER REVIEW.

Virginia Electric and Power Company and Gulf States Utilities Company, respondents in the case under review, filed their respective applications with the Securities and Exchange Commission pursuant to Section 2(a)(4) of the Public Utility Holding Company Act of 1935 requesting that they, respectively, be declared not to be a gas utility company as defined in said Section 2(a)(4).

Hearings on said applications were conducted before a Trial Examiner of the Securities and Exchange Commission prior to hearings in the case under review.

At a hearing held June 5, 1941 before Robert E. Healy (presiding) and Sumner T. Pike, Commissioners of the Securities and Exchange Commission, it was ordered that the record in the cases involving the two applications above mentioned should be incorporated by reference, or transferred, into the record of the case under review. The following is a quotation from that portion of the record of the case under review appearing at R. pp. 1482 and 1483:

> "Commissioner Healy: What was the reason that the evidence regarding those two gas subsidiaries that we decided yesterday, or two days ago, the gas utility subsidiaries of Gulf and Virginia, shouldn't be transferred by stipulation into the record and supplemented in any way that is desirable and proper? Do you see any objection to that?
>
> Mr. Lester: If the facts can be agreed upon, I hope they can be.
>
> Commissioner Healy: I am not asking you if the facts can be agreed upon and stipulated; I am asking you if there is any reason why the records made in the proceeding involving those two proceedings can not be transferred into this proceeding of 11(b)(1) and then be supplemented in any way that counsel on either side may urge as appropriate and proper?

VIRGINIA GAS SYSTEM (Cont'd)

Mr. Lester: I think they can be. There is a great deal of argument on questions of admissibility on both sides.

Commissioner Healy: That is part of the legal process. We can't do anything about that. The Commission thinks that the record in those two cases, the case involving those two gas subsidiaries should be transferred by stipulation, or by order. Now, Mr. Tucker makes no objection to it.

Mr. Tucker: I will agree to such a stipulation right here now.

Commissioner Healy: It is ordered and transferred right here now."

The following excerpts (comprising Appendix pages 542 to 578, inclusive) have been taken from the transcript of hearings on the above mentioned application of Virginia Electric and Power Company. The numbers in brackets appearing in such excerpts indicate the paging of the certified transcript, but are not the same as the paging of the original reporters' transcript.

[R. p. 4862] ROBERT J. THROCKMORTON

was thereupon called as a witness for and on behalf of the applicant and, having been first duly sworn, testified as follows:

Direct Examination

Q. (By Mr. Moore) Will you please state your name, age, residence and occupation? A. Robert J. Throckmorton; 49 years of age; 812 Stockley Gardens, Norfolk, Virginia. I am employed as Vice-President of Virginia Electric and Power Company, in charge particularly of the Norfolk Division.

Q. Will you state briefly what has been your educational background and business experience? A. After com-

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Robert J. Throckmorton—Direct Examination (Cont.)

VIRGINIA GAS SYSTEM (Cont'd)

pleting preparatory schools in Richmond, I graduated from Virginia Military Institute in 1912 with Bachelor of Science degree, and later received a degree in [R. p. 4863] Electrical Engineering.

From June, 1912 to October, 1912, I was employed by American Locomotive Company at Richmond as helper in the Electric Welding Department.

I started to work with the Virginia Railway and Power Company in 1912. From October, 1912 to September, 1913, I worked in the Overhead Line department, Richmond; from September, 1913 to June, 1916, I worked in Distribution Engineering, Richmond; from June, 1916 to August, 1919, I was in the Army; from August, 1919 to October, 1919, I worked in Distribution Engineering in Richmond; October, 1919 to 1923, Distribution Engineer, Norfolk; 1923 to September, 1926, Superintendent Light and Power, Norfolk; September, 1926 to November, 1929, Manager Electric Department System, headquarters at Richmond; November, 1929 to September, 1934, Vice-President, Norfolk Division, Norfolk; September, 1934 to April 1,936, Vice-President Electric Department, Richmond for the system.

Since April, 1936 I have been Vice-President of the Company in charge of the Norfolk Division, electric, transportation and gas, and in connection with the above positions have become personally familiar with all important parts of the area served by the Company, and particularly with the Norfolk District, including the Gas Department of the Company, which is limited to Norfolk and [R. p. 4864] suburbs.

* * * * *

(By Mr. Moore)

[R. p. 4871] Q. Have you any comments with regard to this picture, Mr. Throckmorton?* A. With respect to the air view of the gas plant, it will be noted that the plant is

* Virginia Electric and Power Company Exhibit 2 [R. pp. 9833-9834].

VIRGINIA GAS SYSTEM (Cont'd)

located practically in the heart of the City of Norfolk so as to make it necessary that the plant at all times have a neat and attractive appearance and that it be operated efficiently with the minimum mount of inconvenience to the surrounding [R. p. 4872] area.

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[R. p. 4872] Q. (By Mr. Moore) Will you now briefly state what is the relationship from an operating standpoint of the Gas Department to the Electric and Transportation Department? A. The manufacture and distribution of gas in the City of Norfolk has been a closely integrated operation for a number of years. Since the acquisition of the stock of the City Gas Company of Norfolk in 1900 by the Norfolk Railway and Light Company, the gas property has been a coordinated operation with the Transportation Department and Electric Department of the Virginia Electric and Power Company or its predecessors.

The Norfolk District served by the Gas Department is also served by the Electric and Transportation Departments [R. p. 4873] of the Company. The history of its growth and expansion has been along lines similar to the growth and expansion of the Electric and Transportation Departments since their beginning. Small companies started up in all three branches of service in the early stages, but integration during those times was considered advisable and these smaller companies were either purchased or merged into what is now one integrated company providing gas in the Norfolk District and electric and transportation service in the district.

The Gas Department, as is true in the Electric and Transportation Departments from a revenue standpoint, has been operated as a unit, and statements of revenues, expenses and net earnings show that the Gas Department has earned a stable net revenue during the whole of the last twenty years and has been an asset to the Virginia Electric and Power Company.

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Robert J. Throckmorton—Direct Examination (Cont.)

VIRGINIA GAS SYSTEM (Cont'd)

The Gas Department, although operating only in the Norfolk District, has the advantage of obtaining services from the executives, engineers, specialists, and the other departments of the Company, whether located in Norfolk or other parts of the system. This has been a very definite advantage to the Gas Department, in that for the very reasonable charges made for these services against the Department, specialists in electrical, mechanical, civil and chemical engineering are available. On the other hand, if operated [R. p. 4874] as an independent company, it would be necessary to either increase the personnel of the department to provide these services or obtain them from outside sources, in either case at a greater expense.

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[R. p. 4879] Q. Will you now proceed to give such further rea- [R. p. 4880] sons as you desire to give in support of your statement which provoked this discussion. A. Being operated as a department of Virginia Electric and Power Company not only makes these services available when requested but, in the course of operations in these other departments, any improvements in efficiencies which may be realized in those departments are immediately available to the Gas Department. In addition to these, the department receives the benefits of a large and experienced personnel in matters pertaining to legal, accounting and purchasing problems.

The operations of the department are greatly benefited due to this joint use of personnel, particularly with the Electric Department, in that all customer contact employees, service connections, meter reading, billing and collections are handled by combination electric and gas employees. This method is also a very definite advantage to the customers served.

Q. What do you mean by "combination electric and gas employees"? A. Men who can handle both the gas and the electric service.

VIRGINIA GAS SYSTEM (Cont'd)

The joint use of facilities is a means of further reducing expenses in the department under what they would be if it were operated as an independent company. Combi- [R. p. 4881] nation office building, general store and supply buildings and communication system are some of these advantages. The combining of automotive equipment for all departments makes it possible for the gas Department to carry on its operations with less equipment than would be possible if operated as an independent company.

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[R. p. 4888] Q. (By Mr. Moore) Mr. Throckmorton, will you now make a brief statement tracing the history of the Gas Department in the City of Norfolk and vicinity, first taking up the properties as a whole? A. In 1849, a group of Norfolk citizens decided to build a gas plant in Norfolk, the principal reason being to supply street lighting for the city, and on May 31 of that year the City Gas Association of Norfolk came into existence. [R. p. 4889] Shortly after the forming of the company a small plant was constructed at Walke and Mariner Streets for the manufacture of gas from resin. The use of gas at that time, of course, was very limited and the art of manufacture was in its infancy. Probably due to the low cost of construction, the resin method was decided upon, but from an operating standpoint the method proved to be very costly.

On October 3, 1849, the name of the original company was changed to the City Gas Light Company of Norfolk, and the charter was approved by an Act of the General Assembly on January 11, 1850.

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[R. p. 4890] On June 2, 1896, the Norfolk Gas and Electric Company was organized. On June 17, 1896, the City Gas Light Company of Norfolk and the Norfolk Gas and Electric Company entered into an agreement of merger and consolidation and the consolidated company was named

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Robert J. Throckmorton—Direct Examination (Cont.)

VIRGINIA GAS SYSTEM (Cont'd)

City Gas Company of Norfolk. This agreement of merger and consolidation became effective for accounting purposes on July 1, 1896.

After forming the City Gas Company of Norfolk, the electric department of the gas company continued to supply electric lighting for a short time, but on April 1, 1898, the gas company sold its electric properties to the Electric Company of Virginia and discontinued the electric department.

Up until approximately the beginning of the century the majority of lighting in the homes and commercial establishments was furnished by the gas company, and a considerable [R. p. 4891] amount of residential cooking was being done by gas.

The Electric Company of Virginia, with the newly acquired electric department of the City Gas Company of Norfolk, continued to expand and electricity was rapidly replacing gas for lighting. The use of gas for cooking. however, continued to increase but since the principal business of the gas company had been lighting, and, in view of the rapid strides which were being made by the electric company in replacing gas lighting with electric lights, the owners of the gas company became alarmed at the rapid increase in use of electricity and, probably not anticipating the increased use of gas for cooking and water heating, became skeptical as to its future and offered the property for sale to the electric company.

The old properties of the Electric Company of Virginia, together with electric properties acquired from the City Gas Company of Norfolk, were acquired by the Norfolk Railway and Light Company on November 2, 1899. The Norfolk Railway and Light Company had been principally interested in Street railway operations, having as some of its predecessors the Norfolk City Railroad Company, incorporated in 1866, and the Suburban and City Railway and Improvement Company, incorporated in 1887.

VIRGINIA GAS SYSTEM (Cont'd)

The Norfolk Railway and Light Company, feeling that it could operate the gas property at a much less expense than [R. p. 4892] it had been operated, due to its ability to combine certain of the facilities for the operation of the gas property with its electric and transportation operations, negotiated the purchase of the controlling stock of the City Gas Company of Norfolk, which was completed on June 30, 1900.

In 1906, Norfolk Railway and Light Company leased all of its properties, including the City Gas Company of Norfolk, to Norfolk-Portsmouth Traction Company for a long period of years. In 1911, Norfolk-Portsmouth Traction Company was merged into the Virginia Railway and Power Company. Norfolk Railway and Light Company was itself merged into the Virginia Electric and Power Company in 1927.

On July 1, 1925, Engineers Public Service Company purchased the controlling interest in Virginia Railway and Power Company, which Company then controlled the City Gas Company of Norfolk as lessee. After the purchase of control of the Virginia Railway and Power Company, the name was changed to Virginia Electric and Power Company.

The City Gas Company of Norfolk, from a corporate standpoint, was not changed at that time, but from an operating standpoint, the operations were more systematically supervised and directed, and through Engineers Public Service Company considerable help was obtained in planning improvements and additions; in re-arranging operating condi- [R. p. 4893] tions to produce more efficient results; and making available specialists and experienced personnel.

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[R. p. 4894] Q. (By Mr. Moore) Will you please proceed with your statement, Mr. [R. p. 4895] Throckmorton? A. Prior to 1925, financing by the City Gas Company of Norfolk

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VIRGINIA GAS SYSTEM (Cont'd)

had been difficult and costly, thus, in order to procure capital for improvements it was necessary to offer preferred stock at the rate of 8 per cent. Since, from an operating standpoint, the City Gas Company of Norfolk was simply a department of Virginia Electric and Power Company, it was considered advisable from the point of view of economy and simplicity of administration and to provide a sounder base for future credit, to merge the City Gas Company of Norfolk into the Virginia Electric and Power Company, which merger became effective on July 1, 1930.

* * * * *

[R. p. 4900] Q. (By Mr. Moore) Will you please proceed, Mr. Throckmorton, with your statement? A. From the period 1920 to 1925 the principal change that was made in the plant and production equipment was in installing equipment absolutely necessary to provide some form of gas service without extended interruptions. From the records, very little was done toward improving manu- [R. p. 4901] facturing conditions in order to obtain efficiencies and economies in operation.

At the beginning of the period there were two gas making sets, one 11-foot machine and the other a 9-foot machine. Both sets were equipped with automatic control, carbureter blast control and indicating pyrometers. The system being used for the manufacture of gas was generally in use at that time, but since has been superseded by more efficient and up-to-date operations. Neither of the sets had any safety features, such as explosion check valves, blast lines, vent linen, or explosive blast heads. The hydraulic piping consisted of iron which was very susceptible to corrosion, and produced valve failures which correspondingly caused interruptions to operations.

Additional generating equipment was needed immediately and consequently an additional 11-foot set was installed in 1921. This set was equipped with more modern

VIRGINIA GAS SYSTEM (Cont'd)

control equipment and apparatus but throughout the period under discussion changes were made in equipment and, at the present time, the two 11-foot sets are in excellent operating condition.

Continual changes which have been made have increased the capacity of the older set from 175,000 cubic feet per hour to 210,000 cubic feet per hour. It was due to the increased capacity and condition of the two larger sets that [R. p. 4902] the third smaller set has not been in use for a number of years.

Purification equipment at the beginning of the period under discussion from a condensing standpoint consisted of three multitubuler condensers. The condensers were of the older type, equipped with seal pot type drains which very often were the source of much trouble due to the collection of yard dirt, causing plugging and overflowing, and creating a very undesirable, dirty condition at the plant. This equipment has been increased to four condensers at the present time of different design, construction and method of operation.

Other purification equipment was oxide purifiers which were very awkward from the standpoint of operations. The oxide purification equipment has also been replaced with modern up-to-date purification boxes and the most modern method of operation instituted. The old equipment has not been discarded but is held in reserve in the event of an emergency and kept in operating condition.

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[R. p. 4903] Q. (By Mr. Moore) Will you please proceed with your statement, Mr. [R. p. 4904] Throckmorton? A. The tar extracting equipment for the removal of tar from gas consisted of one extractor of 4,000,000 cubic feet per day capacity. The equipment as compared to more modern types was not very efficient and definite amounts of tar were carried in the gas after leaving this apparatus. The old extrac-

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VIRGINIA GAS SYSTEM (Cont'd)

tor has been replaced by a more efficient electric tar precipitator, this type of equipment being that most generally used by well operated gas plants.

In 1920 the gas storage equipment consisted of two storage holders and one relief holder, the two storage holders having a capacity of 1,000,000 cubic feet and 300,000 cubic feet respectively, and the relief holder a capacity of 150,000 cubic feet. At the present time the storage equipment consists of one 3,000,000 cubic feet holder and two 1,000,000 cubic feet holders, the old 300,000 cubic feet storage holder being converted in recent years to a relief holder. This relief holder has gone through an entire rebuilding and is of the most modern design. The second 1,000,000 cubic feet holder was installed early in the period in order to provide additional storage capacity and, as send-out increased, the large 3,000,000 cubic feet holder was installed about the middle of the period.

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[R. p. 4905] The Witness: The steam plant was in exceedingly poor [R. p. 4906] physical and operating condition in 1920. The boiler equipment consisted of one Sterling boiler at a rating of 300 h.p., and one Babcock & Wilcox boiler with a rating of 380 h.p., each boiler being set up separately. As has been stated previously, the condition of the boilers was such that it became necessary to obtain steam from locomotives brought into the yard on the railroad siding. There is no record of any auxiliary equipment, such as feed water heaters, having been installed, and the entire operation was manual with no automatic control equipment. One of the first installations was a waste heat boiler attached to the 11-foot gas machine which was very helpful in overcoming some of the difficulties in obtaining the necessary steam. It became necessary in 1922 to install new boilers as the boilers then in use were not fit for further operation.

VIRGINIA GAS SYSTEM (Cont'd)

These two boilers were Babcock & Wilcox, of the water tube type, set in a batter equipped with soot blowers, and also with burners for the burning of tar, in addition to coal which was the regular fuel, but were not equipped with automatic stoker equipment. They each had a normal rating of 500 h.p. These boilers were not new at the time of their installation, but were second-hand boilers which had been rebuilt. The installation of this equipment—however, improved steam conditions at the plan considerably, both from a service standpoint as well as economy in [R. p. 4907] operation.

These boilers were allowed to remain in operation until 1936 when it became necessary to replace them with two new Babcock & Wilcox 316 h.p. water tube boilers, with 300 per cent over-rating. These boilers were equipped with automatic stokers with forced draft equipment. At the present time the steam generating equipment at the plant is in excellent condition and the economies which have been effected due to the installation of this equipment has more than justified the expenditure, aside from greatly improved operating conditions. The boilers are especially designed with high fire boxes for the burning of tar and liquid fuels.

For further efficiencies there was installed in the steam plant a feed water heater, steam accumulator and water softeners, and the installation of this equipment has indicated its necessity in better operations and increased efficiencies.

The principal complaint received from customers at the beginning of the period under discussion was low pressure. The compressor equipment located in the plant consisted of four units but only one of these units was in good operating condition. All of these units were operated by steam and were not equipped with auxiliary motors in the event of steam failure. The condition of the steam [R. p. 4908] plant at that time made it more apparent that auxiliary equipment should be installed. In addition to the poor

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VIRGINIA GAS SYSTEM (Cont'd)

condition of the compressing equipment, the get-away gas lines were of insufficient size, making it necessary to operate the compressors at higher pressures than would be necessary with get-away lines of sufficient capacity. In order to correct this poor pressure condition, a new compressor was installed in 1921, and undersize lines were either replaced or additional lines installed. The completion of this work improved greatly this very serious and unsatisfactory pressure condition. The plant, at the present time, consists of two electrically-driven compressors, and two steam-driven compressors, and as a precautionary emergency, electrical service is provided for the electrical equipment.

As a safety measure, the exciter equipment for the motor-driven compressors is housed in a gas-proof section in the compressor house and the collector rings of the motors are enclosed in a glass box on which positive air pressure is maintained to avoid any contact of gaseous atmosphere and electrical sparks.

The equipment necessary for the movement of gas through the plant consisted of three steam-driven gas exhausters, all but one in very poor operating condition. The newest of these three units has been modernized and is driven by [R. p. 4909] an electric motor, and the other has been replaced. The second unit of the present equipment is comparatively new and is equipped with combination drive, electric motor and vertical steam engine. All of the electrical equipment in the exhauster house is housed in a ventilated gas-proof room and precaution is taken to prevent explosion.

The station meters in use were of the wet type and from the records which were available, the meters were purchased second-hand and reconditioned. Checks were made from time to time as to the accuracy of the wet type meter and it was found that they were not accurately recording the amount of gas being manufactured. It was

VIRGINIA GAS SYSTEM (Cont'd)

later decided to discard this type of meter and install the rotary type, which is now most generally in use. This unit is in excellent condition and more accurate records are available as to the amount of gas being manufactured.

In 1919, as records indicate, it was necessary to replace the two air blowers with two new steam turbine-driven blowers. These blowers have been carefully maintained and are equipped with governor and protective equipment, but one of the blowers has been changed to electric drive. A third blower, which has been added recently, is a self-contained steam turbine-driven unit, [R. p. 4910] having a larger capacity than the two older pieces of equipment. It was considered advisable to have a duplication of the equipment in order to insure production and continuity of operation. The blast lines are equipped with explosive check valves and numberous explosion blast heads.

The pumping equipment consisted of a number of steam-driven pumps of various sizes and types, located at different points about the plant, and a very wasteful method of allowing them to exhaust direct to atmosphere was the procedure.

During recent years a detailed study has been made in connection with the pumping equipment and those pumps, on which depend continuity of service, have been equipped with additional drive or auxiliary pumps installed. The location of the pumps was given serious consideration and those pumps associated with special equipment are located conveniently to that equipment, while others of a more general nature are grouped and located in a special pump house. Duplication of drive has proved to be of great advantage through the various seasons of the year in balancing the thermal load of the plant.

The old method of hand lubrication has been done away with and all pumps are equipped with forced feed lubrication, governors and regulators. The numberous pipes carry-
[R. p. 4911] ing steam, water, air, gas, oil, tar, etc., through

VIRGINIA GAS SYSTEM (Cont'd)

the yard were in most cases heavily overloaded and very poorly installed. There were very few instances in which steam pipes were protected by pipe covering, causing very inefficient operations. This condition has been greatly improved and, at the present time, all steam lines are covered properly, supports for pipes installed, and the entire piping system rearranged to afford the maximum of efficiencies and operation.

The buildings were, in general, in very poor condition, having been added to from time to time with little regard for permanent structures. Practically all of the buildings had wooden roof trusses covered with wood and tar paper. Practically all of the buildings have been reconditioned and have been equipped with concrete roof on steel supporting structures, thoroughly fire-proof, with steel window sashes, steel doors and modernized piping and wiring systems.

In the beginning of the period under discussion, as was true generally among gas properties, very little attention was paid to housekeeping, particularly the yard. As indicated by pictures taken of the plant in the early period, no consideration was given to grading or clearing. This condition has been gradually improved until the yard presents a very pleasing appearance. The main travelled [R. p. 4912] portion of the yard is topped with smooth macadam and [concrete] concrete curbing installed where necessary. The property is enclosed with cyclone wire fencing and that portion near Monticello Avenue, one of the main thoroughfares in the City, has been grass plotted. Seasonal flowers are planted and every effort is made to have the plant present a pleasing appearance. Favorable comment has been received from time to time from residents of the City concerning this particular phase.

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[R. p. 4918] Q. (By Mr. Moore) I would like to ask you whether or not, beginning in 1925, there was a definite pro-

VIRGINIA GAS SYSTEM (Cont'd)

gram of improvement put into effect in a well-organized way in regard to the gas property in Norfolk? A. It was, but as my previous testimony has indicated, new equipment has been installed, and it was then that the survey was made as to improved efficiencies and operation, and that program was started just after 1925 and early in 1926.

Q. As I have understood your story, the improvement work was carried on immediately following the war period, from 1920 to 1925, with the view of getting the facilities in shape so as to stop interruptions of service which had become the great evil in furnishing service resulting in the war period? A. That is it. Equipment was not available in the plant to provide the necessary gas.

Q. Starting in 1925, was there or not a definite, comprehensive program of improvement in all the branches of the gas department put into effect which has concluded with certain facilities at the present time? I ask you to describe what has been the evolution and the result of this program of improvement, so far as the present facilities are concerned. [R. p. 4919] A. Well, the major change in the steam plant was in the installation of forced draft automatic stoker feed boilers in 1936. This amounted to considerable saving in fuel cost. There were two gas-making sets, each with the capacity of 4,000,000 cubic feet a day.

Q. This is the present equipment? A. This is the present equipment. With a smaller unit, although not in operation, which, if needed, could be conditioned to produce two and a half million cubic feet per day.

Ample holder capacity is available, consisting of one 2,000,000 cubic feet, and two 1,000,000 cubic feet holders, or a total of 5,000,000 cubic feet.

The two boilers supplying steam for the plant are of modern design and ample capacity, equipped with automatic features, both for firing and regulation.

VIRGINIA GAS SYSTEM (Cont'd)

The compressor equipment, consisting of four compressors, is in excellent condition, some units being equipped with auxiliary drive, and is ample for maintaining proper pressure over the entire distribution system.

The dri-gas plant and after-cooler equipment installed for the elimination of condensate in the mains and service lines are in excellent operating condition and producing the desired results.

There is installed in the plant yard an oil storage tank having a capacity of 400,000 gallons and the storage [R. p. 4920] facilities for coal and coke are ample and located at the most advantageous point for handling.

Ample pumps and pipe lines of sufficient capacity for the proper movement of gas, steam and oil necessary for the manufacture and storage of gas are installed.

A laboratory with modern equipment for the obtaining of data necessary for efficient and economic operation is in constant use and is manned by efficient and experienced personnel.

Q. Now, will you state whether or not the production facilities at the gas plant are now, and have for several years been in thoroughly modern, efficient condition and ample? A. They are, so far as my experience indicates.

Q. Are they adequate for all the local needs of the community so as to furnish dependable and regular, reliable service? A. This defense program might have some effect on it; depending upon that.

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[R. p. 4926] Q. Will you now briefly describe the improvement in the gas plant, from the standpoint of the distribution system during the period 1920 to 1939, stating what the distribution facilities consist of at the present time? A. Since reference has been made to the report submitted to the City of Norfolk by Mr. A. Merritt Taylor, I believe that the condition of the distribution system could be more adequately described by quoting further from his report.

VIRGINIA GAS SYSTEM (Cont'd)

Q. As to the condition in 1920? A. As to the condition of the distribution system in 1920.

Q. All right, sir. First, I will ask you to indicate [R. p. 4927] how many miles of mains there were at that time. A. In 1920, there were 155 miles of main of all sizes, but the records are not available to show a division between the high and low pressure mains.

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[R. p. 4929] Q. Now, Mr. Throckmorton, was there a comprehensive improvement program put into effect in regard to the distribution system similar to that which was put into effect in regard to the production facilities? A. There was. The entire high pressure and low pressure main systems were gone over. New plats or charts were available as to location and method of installation of the mains, and it was necessary, first, to prepare these charts and records. After they had been prepared, mains of larger size, [R. p. 4930] method of construction, the installation of drip pots, the installations of pressure gauges in the outlying section, enlargement of mains, improved drip collections, and everything that would be necessary to free the mains of this condensate that had collected due to the type of gas that had been manufactured prior to this period under discussion, all those things were done.

Q. The mains in the high pressure system in 1920 consisted of what kind of material? A. Well, there were some cast iron pipe with mechanical joints; in most cases only 2 inch for the more important mains, and in some cases services as low as ¾ of an inch.

Q. Now, as a part of the general improvement program, that was put into effect at the time that the production facilities program was put into effect, you decided to use what kind of material, from that point on? A. Used all welded joints, steel mains, with the pipe coated and treated.

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Robert J. Throckmorton—Direct Examination (Cont.)

VIRGINIA GAS SYSTEM (Cont'd)

Q. Have you the figures as to the amount of new mains that were constructed during the period 1920 to 1940? A. During the period 1920 to 1940, 186½ miles of main were installed, the greater portion of it being in the high pressure system. The high pressure system serves the outlying territory.

[R. p. 4931] Q. Now, as indicated on the map that you filed as your first exhibit this morning, have the mains been extended to all territories, all distances there that really have any need of service? A. I can say yes, they have.

Q. In other words, is the City of Norfolk and the environs, the suburbs of Norfolk, now adequately and completely provided with gas service? A. It is.

Q. As fas as they need it? A. Yes, sir.

Q. Prior to the period to which you just referred, that is before this improvement program was put into effect, had there been any real plan in effect regarding the testing of meters? A. More or less of a haphazard plan, and it was found upon investigation after these surveys were started that there were approximately 8,000 meters that had not been tested for over seven years. This condition was studied and the matter was discussed with the Corporation Commission and a definite program of testing the meters was decided on.

Q. And has that program now, for the last several years, been carefully complied with on the part of the company? A. At the present time all the meters in service comply with the requirements of the testing agreement.

* * * * *

[R. p. 4932] Q. (By Mr. Moore) In the last few years has there been any great improvement in the character of the service that has been provided for the customers? A. It is pretty hard to answer that yes or no, but I would say yes, and connect it up with the fact that we have had very little trouble now with the clogging of mains or with sticking

VIRGINIA GAS SYSTEM (Cont'd)

regulators. At the beginning of the period it was necessary to keep several men doing nothing but repairing regulators due to this clogging condition, and now we only have a part-time man who handles the regulator repairs.

Q. Now, about 1926, were especially skilled gas engineers and specialists brought into the gas property and did they make studies as to what improvements should be made? A. They were brought in and made a complete study of the whole production and distribution system, and it was after their study and recommendations that we started a systematic plan of improvement.

[R. p. 4933] Q. I now ask you, as the result of this improvement program, to summarize just what was done in the way of principal changes, in the way of improvements. A. You are referring now to the distribution system?

Q. To the distribution system. A. Methods of construction and operation were effected which have been extremely helpful both from an expense standpoint as well as greatly improved service to the customer. Some of the most outstanding changes were: main and service line construction; use of Merco-Nordestron plug valves to replace old type gate valve which at times did not completely shut off the gas; welding high pressure mains; use of mechanical joints instead of cast lead joints in the low pressure system; the use of leak clamps; the installation of booster mains at strategic points; the preparation of adequate maps and records; protective coating and wrapping for pipes; telemetric control of pressure on the high pressure system; installation of dri-gas apparatus; installation of after-coolers.

These recommendations have been very helpful in improving the physical condition of the distribution system, as well as providing at this time a very satisfactory and reliable service to its customers.

The distribution department, both the high and low pressure system, is in good operating condition and con-

. *Robert J. Throckmorton—Direct Examination* (Cont.)

VIRGINIA GAS SYSTEM (Cont'd)

sists [R. p. 4934] of 341½ miles of main, serving 26,360 customers as of January 1, 1940.

Q. Have you had prepared by the accounting department of the company any charts or financial statements of the gas department in respect of operating revenue, operating expenses and balance after taxes and depreciation, together with a statement as to the amount included on the company's books representing the balance and property in gas department? A. I have, and I now file a chart and two statements.

Mr. Moore: We now offer, Mr. Examiner, the chart which shows the operating revenue and expenses.

The Examiner: Will you identify it a little further?

Mr. Moore: It is entitled "Virginia Electric and Power Company—Gas Operating Revenue and Expenses." I offer it as our Exhibit No. 10, the Virginia Electric and Power Company Exhibit No. 10.

The Examiner: Do you offer it in evidence?

Mr. Moore: I offer it in evidence, please.

Mr. Lester: No objection.

The Examiner: The document offered, which has been marked as Applicant Virginia Electric and Power Company Exhibit No. 10, may be received in evidence without objection.

(Applicant's Exhibit No. 10 received in evidence.)

Mr. Moore: We now offer as Virginia Electric and Power [R. p. 4935] Company Exhibit No. 11, a document entitled "Virginia Electric and Power Company Income Statement—Gas Department."

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[R. p. 4936] The Examiner: The document which has been marked as Applicant Virginia Electric and Power Company Exhibit No. 11 may be received in evidence.

(Applicant Virginia Electric and Power Company Exhibit No. 11 was received in evidence.)

VIRGINIA GAS SYSTEM (Cont'd)

Mr. Moore: We now offer a third exhibit in this same connection, an exhibit entitled "Book Value of Plant and Property of the Gas Department", as Virginia Electric and Power Company Exhibit No. 12.

Mr. Lester: No objection.

The Examiner: The document which has been marked for identification as Applicant Virginia Electric and Power Company Exhibit No. 12 may be received in evidence.

(Applicant Virginia Electric and Power Company Exhibit No. 12 was received in evidence.)

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[R. p. 4937] Q. (By Mr. Moore) Now, Mr. Throckmorton, have you certain comments to make in regard to these exhibits?

The Examiner: Which exhibits do you mean, specifically?

Mr. Moore: These three exhibits.

The Examiner: That is Exhibits 10, 11 and 12?

Mr. Moore: Exhibits 10, 11 and 12.

The Witness: The revenue received from the gas department as shown on the chart——

[R. p. 4938] Q. (By Mr. Moore) (Interposing) That is Exhibit No. 10? A. Yes.

(Continuing)—as shown on the chart, has fluctuated considerably since 1923, reaching the peak in 1929. The years of 1932 and 1933 show a large decrease in revenue, but from 1933 to 1937 revenues remained fairly constant with a definitely increasing trend appearing in 1937.

Due to the improvement in existing equipment and the adding of additional equipment, together with efficient and economic operation, operating expenses have continued to decline throughout the period. It is interesting to note that revenue from the sale of gas for the year 1921 of $908,689 was slightly less by approximately 4 percent than the revenue of $947,632 in 1939, but that the amount of gas

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VIRGINIA GAS SYSTEM (Cont'd)

sold had increased from approximately 625 million feet in 1921 to approximately 875 million feet in 1939, approximately 40 percent. During this period, in spite of the fact that approximately 40 percent more gas was manufactured, operating expenses were reduced from $569,547 to $435,306, approximately 30 percent. This reduction in expenses has made it possible to show a decided increase in net revenue.

The reduction in operating expenses has been due to a number of factors, principally the installation of more efficient and modern equipment, and efficient and economic operations. Also, the fact that the property is being operated [R. p. 4939] as a department of Virginia Electric and Power Company makes it possible to operate the department, in so far as administrative, executive, accounting, legal and general office expenses are concerned, at considerably less expense than would be possible if it were operated as an independent company.

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[R. p. 4939] Q. (By Mr. Moore) Go ahead, Mr. Throckmorton. A. These advantages are greatly increased, and are supplemented, by the expert advice and services received by the gas department from the mutual service company.

The chart I have filed shows an improvement in operating costs, particularly cost of oil, coal and coke. The fact that [R. p. 4940] the property was being operated as a department of Virginia Electric and Power Company made it possible to obtain these materials at a lower figure due to combined purchasing power. This factor, together with improved efficiencies, combine to make the greatly reduced cost of operation.

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[R. p. 4941] Q. (By Mr. Moore) Have you any comments to make regarding the income statement which you have just filed, that is Exhibit No. 11? A. This income state-

VIRGINIA GAS SYSTEM (Cont'd)

ment covers the three-year period from 1937 to 1939, inclusive, which, in my judgment, is a sufficiently long period in the light of other information filed to show the level of the income of the Gas Department in recent years. This statement shows that there has been a steady increase from 1937 to 1939 in the balance after taxes and depreciation. This balance increased from $252,240 in 1937 to $319,339 in 1939. The statement also shows that while operating revenues increased steadily in each year, operating expenses decreased, and although taxes and depreciation increased, the balance after taxes and depreciation increased in each of the years under review.

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[R. p. 4958] Q. Will you now state just what the distribution system does consist of as of December 31, 1940? A. As of December 31, 1940, the distribution system consisted of 207.6 miles of high pressure mains, and 149.5 miles of low pressure mains, or a total of 357.1 miles of mains, as compared with 341.5 miles as of December 31, 1939.

Q. In other words, there were 15.6 miles of additional main built during 1940? A. Yes; these additional mains were entirely in the high pressure system.

The major maintenance job during this period was the [R. p. 4959] replacing of the submerged portion of the 6-inch high pressure steel main across the Eastern Branch of the Elizabeth River, serving Berkley and South Norfolk. Several leaks had developed despite the fact that the main was coated and wrapped, and had been in service for only four years. After thorough investigation, it was decided to install a special type jointed cast iron pipe, the joint being of ball and socket type, which is more flexible than the welded joint and permitted a more positive settling on the river bed. It is also expected that cast iron will withstand deterioration for a considerably longer period than steel.

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Robert J. Throckmorton—Direct Examination (Cont.)

VIRGINIA GAS SYSTEM (Cont'd)

As of December 31, 1940, we served 28,370 customers, an increase of 2,010 customers over December 31, 1939.

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[R. p. 4960] Q. Will you state now, considering the plant as a whole, what is the condition of the plant as to the quality of the service and the adequacy of it? A. It is as good as it has ever been.

Q. Now have you had prepared certain charts and other [R. p. 4961] exhibits that will bring up to the present date the charts that you filed yesterday? A. I have prepared charts and statements identical to those which have been previously presented, with the exception that they include information for the period December 31, 1939 to December 31, 1940.

Q. Now will you just direct your attention to those very briefly.

Mr. Moore: May we have the chart entitled, "Virginia Electric and Power Company—Gas Fuel Costs" through the year 1940, please,—we would like to introduce this as Virginia Electric and Power Company Exhibit No. 14.

The Examiner: There is no objection, I take it, Mr. Fischgrund?

Mr. Fischgrund: No objection.

The Examiner: The document offered may be received in evidence as Applicant Virginia Electric and Power Company Exhibit No. 14.

(Applicant Virginia Electric and Power Company Exhibit 14 received in evidence.)

The Witness: You will notice that there has been no appreciable difference in the trend of the chart.

Q. (By Mr. Moore) This chart is really the efficiency chart reflecting [R. p. 4962] the b.t.u.'s? A. Yes.

Mr. Moore: We now offer, if it please the Examiner, the next exhibit, entitled "Virginia Electric and Power Company—Gas Production", as Exhibit No. 15.

VIRGINIA GAS SYSTEM (Cont'd)

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 15, and received in evidence—without objection?

Mr. Fischgrund: No objection.

(Applicant Virginia Electric and Power Co. Exhibit 15 was received in evidence.)

Q. (By Mr. Moore) Will you now comment on that exhibit, Mr. Throckmorton, with particular reference to the year 1940? A. The chart shows a rather sharp increase in gas produced, due to the activities occurring in Norfolk during the year 1940. It also shows an increase in the net production costs. That is due to increased costs of materials and labor.

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[R. p. 4965] THOMAS D. FULFORD

called as a witness on behalf of Virginia Electric and Power Company, being first duly sworn, was examined and testified as follows:

Direct Examination

Q. (By Mr. Moore) Will you state your name, age, and residence? A. Tom D. Fulford; 48 years old; residence, 2301 Maplewood Avenue, Richmond, Virginia.

Q. What is your position with the Virginia Electric and Power Company? A. General Sales Manager.

Q. Will you give us very briefly an outline of your training and experience? [R. p. 4966] A. I studied electrical engineering at the University of Cincinnati from 1914 to 1917. I entered the employ of the Philadelphia Electric Company in September, 1917, in the meter laboratory as a special tester. I resigned from the Philadelphia Electric Company in January, 1919, and entered the employ

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VIRGINIA GAS SYSTEM (Cont'd)

of the Puget Sound Power and Light Company in Seattle, Washington, in the Company's meter department in February, 1919. In June 1920, I was transferred to the sales department, where I prepared rate studies, statistical data, and engaged in various sales duties. In September, 1922, I was transferred to the Savannah Electric and Power Company at Savannah, Georgia, as Assistant Sales Manager.

In June, 1923, I was transferred to the Baton Rouge Electric Company at Baton Rouge, Louisiana, as Sales Manager, which included supervising gas and electric sales. In September, 1925, I was transferred to the Savanah Electric and Power Company as Sales Manager. In September, 1929, I was transferred to the Virginia Electric and Power Company at Norfolk, Virginia, as Division Sales Manager, which included supervising gas and electric sales in the Norfolk District. In June, 1933, I was transferred to the Puget Sound Power and Light Company at Seattle, Washington, as General Sales Manager. In April, 1937, I was transferred to the Virginia Electric and Power Company as General Sales Manager, where I am now employed.

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(By Mr. Moore)

[R. p. 4970] Q. As General Sales Manager of the Virginia Electric and Power Company, I wish you would now give us a summary outline of the sales activities and policies of the Virginia Company with respect to its gas department,—first of all, telling us something about the merchandising policies and activities? A. Merchandising—Gas: The Company was not merchandising any gas appliances in Norfolk until after 1925.

It was realized that aggressive efforts in sales promotion and merchandising of gas ranges and water heaters were necessary in order to aid the residential customers to

VIRGINIA GAS SYSTEM (Cont'd)

enjoy the [R. p. 4971] full benefits of gas service in the home, and to increase the Company's business from residential gas users. It was recognized that these objectives could be attained best by aggressive Company promotion and merchandising, and close and full cooperation with other merchandising outlets. A Sales Floor was opened in the Norfolk Office and displays of gas ranges, water heaters and space heaters were arranged. Effort at first was concentrated on gas ranges equipped with thermostatically controlled ovens. Later the thermostatically controlled insulated oven range was perfected and was promoted actively by the Company, even though the use of this new range materially reduces the use of gas for cooking. Water heating sales and promotion at first was centered on the so-called tank or side-arm heater. As soon as the thermostatically controlled insulated storage water heater was perfected, the Company immediately concentrated its sales effort and promotion on this more efficient appliance.

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[R. p. 4974] Q. Now will you direct your attention to the matter of gas rates? A. Stimulus has been added to gas sales promotion and merchandising by reductions in the gas rate. During the past 14 years reductions have been made in gas rates which now save residential customers approximately $182,360 per year, based on their use at the time the reductions were made. However, details of the rate reductions will be explained later.

Q. Now will you explain the character of your selling organization, with particular reference to gas appliances? A. A merchandising sales force was employed in the latter part of 1925 and gas appliances were displayed and actively promoted. The personnel of the gas merchandising organization has been varied from time to time in order to meet the needs of market conditions. Active selling of gas ranges [R. p. 4975] and gas water heaters by outside sales-

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VIRGINIA GAS SYSTEM (Cont'd)

men was continued until June 15, 1939. At this time gas appliance dealers were interviewed, and it was found that they were anxious for the Company to discontinue selling gas appliances through the use of outside merchandise salesmen. Due to general customer acceptance and because it was believed that the dealers could satisfactorily sell gas ranges and water heaters in Norfolk, the Company discontinued the use of full-time outside merchandise salesmen. The Company has continued selling from its sales floor.

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[R. p. 4985] Q. Will you now refer briefly to the activities of the sales department in connection with the promotion of commercial and industrial gas use? You have heretofore been referring to residential use? A. Just as in the case of gas appliance merchandising little effort had been exerted to secure additional commercial and industrial gas business, or to develop greater use of existing equipment prior to July 1, 1925.

It was realized that it would be necessary to promote actively the use of gas in commercial and industrial establishments, as well as in residences. The use of gas for commercial and industrial purposes has been promoted actively and at present three sales engineers are employed in this work.

These sales engineers assist customers in planning proper and efficient gas installations, adjusting gas burners, rebuilding old equipment, building special equipment, and purchasing proper gas equipment. Many special tests and studies are conducted for customers including Orsat analyses of flue gases.

In some cases heavy duty gas equipment is not available from the manufacturers. The Company gas sales engineers have [R. p. 4986] designed for customers special heavy duty gas equipment for use in special manufacturing processes. This equipment has been built by local firms and

VIRGINIA GAS SYSTEM (Cont'd)

the Company gas sales engineers have assisted the customers by supervising for them the construction of the heavy duty gas equipment.

The gas sales engineers assist the local gas dealers in selling and installing equipment.

In some cases, as a customer service when local dealers do not sell equipment, such as heavy duty commercial ranges, large water heaters, duct heaters, and unit heaters, the Company sells this type of equipment.

Q. Now will you turn from sales activities to the question of rates and tell us briefly about the history of the Company's gas rates? A. In 1925 a study was made of the Company's gas rates, resulting in a series of rate reductions which began on April 1, 1926. This series of rate changes has resulted in a reduction in the cost of gas service and saves gas users an aggregate of approximately $264,720 per year, based on their use of gas service at the time the reductions were made effective.

Q. Have you prepared a tabulation showing the effect of these rate reductions? A. I have.

Mr. Moore: We now offer this as Virginia Electric and Power Company Exhibit No. 27.

[R. p. 4987] Mr. Fischgrund: May I inquire of the witness how the estimates were made, the estimated reductions, in the exhibit which is entitled, "Estimated Reductions"?

The Witness: How they are computed?

Mr. Fischgrund: Yes.

The Witness: When a rate change is made, the newly designed rate is applied to the business as of the year in which the rate reduction is to become effective, and the savings shown in the table represent those calculations. In other words, that is the saving to those gas consumers as of the time the new gas rate was made effective.

Mr. Fischgrund: Over the period of the preceding year?

The Witness: Yes, based on the previous year's consumption.

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Mr. Fischgrund: No objection.

The Examiner: The document which has been offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 27 and received in evidence without objection.

(Applicant Virginia Electric and Power Company Exhibit No. 27 was received in evidence.)

Q. (By Mr. Moore) Will you now comment on this exhibit? A. This tabulation lists the effective dates of the rate reductions from April 1, 1926 through June 26, 1939. The savings to the two groups of customers, that is, the residential and commercial and industrial users are shown. These savings [R. p. 4988] aggregate $182,360 per year for residential customers and $82,360 per year for commercial and industrial customers, making a total annual saving of $264,720.

Q. Have you prepared a statement showing the "History of Residential Gas Rate changes"; also a statement showing the "History of Commercial and Industrial Gas Rate Changes"; and a tabulation marked "Gas Service Rates 1926-1939"? A. I have.

Mr. Moore: We offer, first, the "History of Residential Gas Rate Changes", as Applicant's Exhibit No. 28.

This exhibit consists of two pages, may it please the Examiner.

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 28 and received in evidence without objection.

(Applicant Virginia Electric and Power Company Exhibit No. 28 was received in evidence.)

Mr. Moore: We now offer as Applicant's Exhibit No. 29, an exhibit consisting of three pages, entitled "History of Commercial and Industrial Gas Rate Changes".

VIRGINIA GAS SYSTEM (Cont'd)

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 29 and received in evidence without objection.

[R. p. 4989] (Applicant Virginia Electric and Power Company Exhibit No. 29 was received in evidence.)

Mr. Moore: We now offer as Applicant's Exhibit No. 30, a tabulation marked "Gas Service Rates 1926-1939". That is a one-page exhibit.

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[R. p. 4990] The Examiner: The document which has been offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 30, and received in evidence.

(Applicant Virginia Electric and Power Company Exhibit No. 30 was received in evidence.)

Q. (By Mr. Moore) Have you prepared a chart, for use in this hearing, entitled "Gas Service—Average Rate Per 1000 Cubic Feet", showing the average rate for gas, covering the period 1921 to 1939? A. I have.

Mr. Moore: We now offer this as Virginia Electric and Power Company Exhibit No. 31.

Mr. Fischgrund: No objection.

The Examiner: The chart offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 31 and received in evidence without objection.

(Applicant Virginia Electric and Power Company Exhibit No. 31 was received in evidence.)

Q. (By Mr. Moore) Will you now direct your attention to this exhibit and comment on the high points shown on it? [R. p. 4991] A. An examination of the chart will show that in 1931 the average rate was $1.45 per thousand cubic feet, whereas the rate has now been reduced until the the average rate is $1.08 in 1939. This is a reduction of 37 cents per thousand cubic feet or 25.5 per cent of the cost in 1921.

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VIRGINIA GAS SYSTEM (Cont'd)

Q. Have you prepared a chart for use in this hearing, entitled "Gas Service—Average Annual Use per Customer"? A. I have.

Mr. Moore: We now offer this chart as Virginia Electric and Power Company Exhibit No. 32.

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 32 and received in evidence without objection.

(Applicant Virginia Electric and Power Company Exhibit No. 32 was received in evidence.)

Q. (By Mr. Moore) Will you now comment on this chart and indicate the high points. A. This chart shows the average number of gas meters in each year from 1921 through 1926 and the average number of gas customers in each year from 1927 through 1939. During this period the number of customers has increased materially and as of December 31, 1939, the company served 26,360 gas customers.

I might say, in explanation, that the chart is based on [R. p. 4992] average, whereas that figure I have just quoted is the December 31, 1939 actual figure.

The average use per customer has declined from approximately 40,000 cubic feet per year in 1921 to approximately 34,000 cubic feet per year in 1939. This decline has been due to the improved efficiency of gas appliances, particularly the thermostatically controlled insulated oven range and the thermostatically controlled insulated water heater. Also, surveys show that more people are now eating in restaurants than in former years and more families puchase bakery and delicatessen products now than in former years.

Q. Have you prepared also a chart for use in this hearing, entitled "Gas Service—Comparative Average Annual Use per Customer"? A. I have.

VIRGINIA GAS SYSTEM (Cont'd)

Mr. Moore: We now offer this chart as our Exhibit No. 33.

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit 33 and received in evidence without objection.

(Applicant Virginia Electric and Power Company Exhibit No. 33 was received in evidence.)

Q. (By Mr. Moore) Will you now comment on this chart? A. This chart is presented in order to compare the [R. p. 4993] average annual use of gas customers served by the company in Norfolk with the average annual use of gas customers in the cities of Richmond and Portsmouth. In Richmond gas is provided by the large municipally operated gas plant of the City of Richmond. The use in Portsmouth is shown also as this city is adjacent to Norfolk and the gas is supplied by a privately owned and operated utility.

Q. The Richmond plant is the largest gas plant in the State, isn't it? A. That is my understanding.

Q. And the Portsmouth plant is just across the Elizabeth River from the Norfolk property, isn't it? A. Yes, sir.

Q. In the same general district ? A. Yes, sir.

Q. Have you prepared a tabulation entitled, "Comparison of Gas Service Rates", in this connection, and if so please present it. A. I have.

Mr. Moore: We now offer this as Virginia Electric and Power Company Exhibit No. 34.

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 34 and received in evidence.

[R. p. 4994] (Applicant Virginia Electric and Power Company Exhibit No. 34 was received in evidence.)

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VIRGINIA GAS SYSTEM (Cont'd)

Q. (By Mr. Moore) Will you comment on this chart? A. This tabulation shows the general service gas rates in effect in the cities of Norfolk, Richmond, and Portsmouth on December 31, 1931. It will be noted that for all normal uses on these rates the general service gas rate of the company applying in the City of Norfolk is lower than the general service gas rates applying in either Richmond or Portsmouth.

Q. Have you prepared a chart marked "General Gas Service—Comparison of Monthly Cost"? A. I have.

Q. For use in this connection? A. Yes.

Mr. Moore: We now offer this chart as Virginia Electric and Power Company Exhibit No. 35.

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 35 and received in evidence.

(Applicant Virginia Electric and Power Company Exhibit No. 35 was received in evidence.)

Q. (By Mr. Moore) What does that chart indicate principally, Mr. [R. p. 4995] Fulford? A. It indicates that for varying consumptions from 1,000 to 10,000 cubic feet per month, the rate for the Virginia Electric and Power Company in Norfolk, Virginia, is considerably lower than in the cities of Portsmouth or Richmond, except in the case of the 50 cent minimum charge in Richmond.

Q. In your judgment are those two plants fairly comparable with the Norfolk plant? A. Yes, sir, they are in the same general territory and the same general conditions obtain.

Mr. Fischgrund: But they are not necessarily the only plants that may be comparable in the State?

The Witness: As far as size, I would say so. The three large gas companies in Virginia are probably Richmond, Norfolk and Portsmouth.

VIRGINIA GAS SYSTEM (Cont'd)

Q. (By Mr. Moore) Have you prepared a chart entitled, "Residential Gas Service—Comparison of Monthly Cost of 3000 Cubic Feet of Gas"? A. I have.

Mr. Moore: We now offer this chart as Virginia Electric and Power Company Exhibit No. 36.

Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 36 and received in evidence.

[R. p. 4996] (Applicant Virginia Electric and Power Company Exhibit No. 36 was received in evidence.)

Q. (By Mr. Moore) Will you now comment on this chart? A. This chart compares the monthly costs of 3,000 cubic feet of gas, based on the rates in Norfolk, Portsmouth and Richmond, during the years 1926 to 1939 inclusive. It will be noted that on December 31, 1939, the cost of 3,000 cubic feet of gas in Portsmouth was $3.90, in Richmond—$3.86; and in Norfolk—$3.55.

Q. Why did you take 3,000 cubic feet as a test? A. Because it represents the average gas customer using a gas range and a water heater.

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J. V. MITCHELL

Further Direct Examination

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(By Mr. Moore)

[R. p. 5007] Q. You have stated that the gas department property actually constituted 6.9 per cent of the total property. Have you any information to show how the gas department property compares with the total property over a period of years? A. I have prepared a statement covering the last 10-year period, which I wish to file as Exhibit 44.

Mr. Moore: We now offer this as Virginia Electric and Power Company Exhibit No. 44.

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Mr. Fischgrund: No objection.

The Examiner: The document offered may be marked as Applicant Virginia Electric and Power Company Exhibit No. 44, and received in evidence.

(Applicant Virginia Electric and Power Co. Exhibit 44 received in evidence.)

Q. (By Mr. Moore) Will you now comment on that statement? A. This statement shows that during the period of 1931 to 1940, the total utility plant has increased from $80,715,126 to $87,619,809. This represents an increase of $6,904,683, or 8.6 per cent.

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JACK G. HOLTZCLAW

Further Direct Examination

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(By Mr. Moore)

[R. p. 5016] Q. What is the size of the territory served by the Company in its gas business in the City of Norfolk and suburbs? A. The total territory served by the Company in its electric business is approximately 13,500 square miles. Of this area, only approximately 35 square miles is served by the gas department, all of which is in the City of Norfolk and its suburbs.

Q. What is the population in the territory served by the Company in its gas business? A. Approximately 157,000 as of December 31, 1940, based on the 1940 Census. [R. p. 5017] Q. Will you now make a brief statement as to the status of the Company as a public utility or public service company or as a company other than a public utility or public service company under applicable State laws? A. The operations of the electric system of Virginia Electric and Power Company in Virginia are subject to regu-

VIRGINIA GAS SYSTEM (Cont'd)

lation by the State Corporation Commission of Virginia and its electric operations in North Carolina are subject to regulation by the Utilities Commission of North Carolina. Both of these Commissions have broad regulatory powers with respect to rates, services, issuance of securities, transactions with affiliates, payment of dividends, and numerous other matters. The gas business is subject to similar regulation by the State Corporation Commission of Virginia. Counsel for the applicant advise that the ownership of and operation by Virginia Electric and Power Company of electric utility assets and gas utility assets in the same territory is in accordance with Virginia law, and that this question was specifically involved and determined by the State Corporation Commission of Virginia in connection with the merger of City Gas Company of Norfolk into Virginia Electric and Power Company on July 1, 1930.

Q. What is the nature of the Company's franchise to conduct its gas operations in the territory served by it? A. In the opinion of counsel for the Company the Company holds valid franchise rights or permits which give it the right [R. p. 5018] to conduct its gas business in the territory served.

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(Appendix pages 579 to 667, inclusive, contain excerpts from the transcript of hearings before the Trial Examiner of the Commission, held pursuant to the Commission's Order under Section 11(b)(1) of the Act. The numbers in brackets indicate the paging of the certified transcript, which are the same as that of the original reporters' transcript. Corrections have been made in these excerpts in conformity with the corrections set forth in Document No. 417—R., pp. 8149-8228.)

R. J. THROCKMORTON

Further Direct Examination

[R. p. 3889] Q. Have you made a study to determine what effect the Taylor Report of August 1, 1941, Engineers' Exhibit No. 202, has upon the accounts known as Customers' Accounting and Collecting Expenses, shown in Virginia Electric and Power Company Exhibit No. 13? A. Yes.

Q. Have you prepared a tabulation showing the results of this study? A. Yes.

[R. p. 3890] Q. Will you please explain how you made this study and how this tabulation was prepared? A. I conferred with the heads of the various departments in Norfolk who supervise the work covered by these accounts. After these conferences, I also discussed these accounts with Mr. Holtzclaw and Mr. Mitchell in detail. We agreed that the additional cost to the Gas Department if it were operated as an independent company in so far as the group of accounts known as Customers' Accounting and Collecting Expenses are concerned would be as shown on the tabulation.

Mr. Moore: Mr. Examiner, we now desire to offer in evidence this tabulation for identification as Engineers Exhibit No. 221; and we offer it in evidence.

The Examiner: Very well. The tabulation is so admitted in evidence.

VIRGINIA GAS SYSTEM (Cont'd)

(The tabulation above referred to was received in evidence and marked Engineers' Exhibit No. 221.)

Q. (By Mr. Moore) Will you please comment on this tabulation? A. This tabulation is based upon figures taken from the books for the month of July 1941, which is the first month that the method of accounting recommended by Mr. Taylor in his report of August 1, 1941, Engineers' Exhibit No. 202, was in effect covering these particular accounts. The [R. p. 3891] figures for July 1941 were multiplied by 12 in order to put them on an annual basis, July being a normal month so far as these accounts are concerned.

The third column of this tabulation shows estimated costs of Customers' Accounting and Collecting Expenses of the Gas Department as an independent company. These estimates are the same as shown on Virginia Electric and Power Company Exhibit No. 13, with the exception that an amount of $2,400 is included for uncollectible accounts but does not affect the total increase. The fourth column shows that the increase in Customers' Accounting and Collecting Expenses of the Gas Department as an independent company would be $22,200 annually.

Q. Will you please explain how you determine that Customers' Accounting and Collecting Expenses would amount to $60,300 per year if the Gas Department were operated as an independent company. A. Under the heading Supervision, it was decided that two supervisors would be needed, one to supervise customer accounting and one to supervise credit. The estimated cost of this supervision is $4,500 annually.

Under Customer Contracts and Orders, three customer contract clerks would be needed at an annual cost of $4,800. On the basis of approximately 28,000 gas meters to be read each month, we estimated that a meter reader can average 225 [R. p. 3892] meters per day and with 21 working days

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VIRGINIA GAS SYSTEM (Cont'd)

per month that would be equivalent to 4,725 meters per month per man. On this basis six regular meter readers would be required, with one head meter reader who would handle special readings and call back readings and also act as relief reader. It would also be necessary to supply the meter readers with one automobile at the cost of $100 per month, making the total estimated cost of meter reading $12,000 annually.

Under the heading Collection, four collectors, one clerk, one typist and three cashiers would be required. There would also be an additional expense for collection notices, postage and transportation, making the total cost of collections $16,800 annually.

Under Customer Billing and Accounting, three bookkeepers would be required, two billers, one revenue clerk, one chief record clerk, three record clerks, one addressograph clerk, and two bill deliverers. There would also be an expense for bills, postage and miscellaneous expenses, which would make the total estimated annual expense under this account $19,800.

An item of uncollectible accounts is shown. This item would not increase the cost of operating the Gas Department as an independent company, but was included in order to cover all the accounts in the group entitled Customers' Accounting and Collecting Expenses.

[R. p. 3893] Q. Will you now please state the effect of the Taylor report of August 1, 1941, Engineers Exhibit No. 202, upon the cost of Customers' Accounting and Collecting Expenses as shown in Virginia Electric and Power Company Exhibit No. 13? A. Virginia Electric and Power Company Exhibit No. 13 indicated an additional expense under independent operation in respect to these accounts in the amount of $33,300; Engineers Exhibit No. 221 shows an increase of $22,200. The difference between these two amounts is $11,100. This difference is due entirely to the

VIRGINIA GAS SYSTEM (Cont'd)

application of the new method of allocating joint charges as recommended by Mr. Taylor in his report of August 1, 1941, Engineers Exhibit No. 202.

Q. Mr. Throckmorton, have you made a study to determine whether or not there are any items of expense borne by or chargeable to the Gas Department of Virginia Electric and Power Company, based on 1940 operations as adjusted by the Taylor report of August 1, 1941, Engineers' Exhibit No. 202, which would have to be added to the expenses of the other departments of the company if the Gas Department were disposed of? A. Yes.

Q. How was this study made? A. I made this study first in consultation with the [R. p. 3894] heads of those departments of the Company engaged in both gas and electric activities and then with Mr. Holtzclaw, President of the Company, Mr. J. V. Mitchell, Assistant Comptroller of the Company and Mr. Hourihan of Lybrand, Ross Bros. & Montgomery. Mr. Mitchell and Mr. Hourihan prepared detailed schedules of expenses borne by and chargeable to the Gas Department in 1940 according to the Taylor report of August 1, 1941, Engineers Exhibit No. 202. After these had been prepared, Mr. Holtzclaw, Mr. Mitchell and I studied these figures to determine what expenses could be eliminated if the Gas Department were disposed of and also to determine what expenses would have to be added to the expenses of the other departments of the Company. It was mutually determined that the expenses of the other departments of the Company would be increased by the net amount of $55,969 if the Gas Department were disposed of.

Q. Do you have a statement showing the results of your study? A. Yes.

Q. Was this statement prepared under your supervision and in your opinion does it accurately show the amount of expense borne by and chargeable to the Gas Depart-

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ment in 1940 according to the Taylor report of August 1, 1941, Engineers Exhibit No. 202, which would have to be added to the expenses of the other departments if the Gas Department [R. p. 3895] were disposed of? A. Yes.

Mr. Moore: Mr. Examiner, we now ask that this statement be marked Engineers Exhibit No. 222 for identification; and we offer it in evidence.

The Examiner: The tabulation is so admitted in evidence.

(The tabulation above referred to was received in evidence and marked Engineers Exhibit No. 222.)

Q. (By Mr. Moore) Will you briefly explain this Exhibit 222? A. The first page of this statement gives a summary of the various items entering into the increase of $55,969 in the expenses of the other departments of the Company if the Gas Department were disposed of.

Schedule A is a breakdown of executive and office payroll chargeable to the Gas Department. This statement shows that in 1940, according to the Taylor report of August 1, 1941, there was a total of $69,661 of executive and general office payroll borne by and chargeable to the Gas Department. In our study we determined that if the Gas Department were disposed of this payroll could be reduced by $28,100 representing the elimination of 21 employees. This leaves a total of $41,561 of payroll expense now chargeable to the Gas Department which should have to be added to the expenses of the other departments. Schedules A-1, A-2, [R. p. 3896] A-3, A-4, A-5 and A-6 give detailed information relative to the employees involved.

Schedule B shows the pensions amounting to $1,071, chargeable in 1940 to the Gas Department according to the Taylor report of August 1, 1941, which would have to be added to the expenses of the other departments if the Gas Department is disposed of.

VIRGINIA GAS SYSTEM (Cont'd)

Schedule C is an item of $10,026 borne by and chargeable to the Gas Department in 1940 for joint use of facilities, as shown in the Taylor report of August 1, 1941. Mr. Holtzclaw, Mr. Mitchell and I determined that no part of this $10,026 could be eliminated if the Gas Department were disposed of and that the expenses of the other departments would, therefore, be correspondingly increased.

Schedule D shows certain miscellaneous expenses totaling $4,136.37 borne by and chargeable to the Gas Department in 1940 according to the Taylor report of August 1, 1941. We determined that if the Gas Department were disposed of telephone expense could be reduced by $825.81 but that miscellaneous expenses amounting to $3,310.56 would continue as increased charges to the other departments.

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J. G. HOLTZCLAW

Further Direct Examination

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[R. p. 3897] Q. Have you made a study, based on operations during the month of July 1941, which was the first month during which the method of allocating inter-departmental charges in accordance with the Taylor Report of August 1, 1941, Engineers Exhibit No. 202, was put into operation, to determine the additional cost of operating the Gas Department of Virginia Electric and Power Company as an independent company? A. I have made such a study as to all accounts which [R. p. 3898] would be changed if the Gas Department were operated as an independent company except Customers Accounting and Collecting Expenses as to which I have taken the figures prepared by Mr. Throckmorton and appearing in Engineers Exhibit No. 221.

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VIRGINIA GAS SYSTEM (Cont'd)

Q. That was the exhibit that was just introduced this morning? A. Yes; it was just introduced in evidence by Mr. Throckmorton.

Q. Have you prepared a statement in exhibit form showing the results of this study? A. I have.

Q. Do you believe that it accurately represents the additional cost of operating the Gas Department as an independent company? A. Yes.

Mr. Moore: Mr. Examiner, we now ask that this exhibit be marked Engineers' Exhibit No. 223 for identification; and we offer it in evidence under that number.

The Examiner: The Exhibit is so admitted in evidence.

(The document above referred to was received in evidence and marked Engineers' Exhibit No. 223.)

Q. (By Mr. Moore) What does this statement show? A. This statement shows that the additional expense of [R. p. 3899] operating the Gas Department as an independent company rather than as a department of Virginia Electric and Power Company would be $75,130 per year less a small amount which would represent the gas department's proportion of the expenses of executives and experts of the Virginia Electric and Power Company, as indicated in footnote A to Exhibit 223 and footnote (a) to Schedule B thereto. Mr. Barnes in his testimony will make this adjustment.

At the outset, I would like to point out that, in my judgment, an independent gas company of the size and character of the Gas Department would, for the purpose of obtaining the greatest efficiency and economy in operation, employ the services of a service company, such as Stone & Webster Service Corporation which supervises the operation of numerous gas properties of this type in various sections of the country.

The size of the gas operation in Norfolk is such as to lend itself particularly well to the advantages of the ser-

vices of such a service company in that such a service company makes available essential expert services which are not available to an independent gas company without substantially larger cost.

Under the customary contract for services of this nature, the cost to the gas operation in Norfolk as an independent company would be approximately $24,000 per year, based on [R. p. 3900] operations for the first six months of 1941 multiplied by two. Under the contract with Stone & Webster Service Corporation, the independent gas company in Norfolk could obtain services of supervisory and expert nature quite similar to those now given by Engineers Public Service Company, Inc.

In view of my judgment in this respect, I have set up such an organization as I think would be required to properly and efficiently operate such an independent gas company in Norfolk under the supervision of Stone & Webster Service Corporation or some such service organization.

I will now comment on the principal items of other expenses which would be made necessary under such circumstances.

Gas Production. I have made an assumption which I think is reasonable that an independent gas company operating under the supervision of Stone & Webster Service Corporation or some such service company could operate the gas production plant with the same degree of efficiency as it is being operated as a department of Virginia Electric and Power Company. I would, therefore, estimate no change in expenses in this group of accounts.

Distribution Expenses. I have made an assumption which I think is reasonable that an independent gas company operating under the supervision of Stone & Webster Service [R. p. 3901] Corporation or some such service company could operate the Distribution Department as efficiently as it is now being operated as a department of

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VIRGINIA GAS SYSTEM (Cont'd)

Virginia Electric and Power Company. However, it is my judgment that there would undoubtedly be some increase in the expenses under this group of accounts for the independent gas company's operation, due to the loss of economies brought about by the present practice of using combination service men handling both electric and gas customers. While it is my judgment that this loss in economy will probably amount to several thousand dollars a year, I have disregarded this loss for this purpose.

Customers Accounting and Collecting Expenses. Mr. Trockmorton has testified as to the increased cost of operating the Gas Department as an independent company in the conduct of Customers Accounting and Collecting Expenses, and there has been introduced in evidence Engineers' Exhibit No. 221 showing in detail these increases. For the purpose of estimating the increase in cost for this group of accounts, I am taking Mr. Throckmorton's figures as per Engineers' Exhibit No. 221. I participated with Mr. Throckmorton in the preparation of this estimate and believe it to properly reflect the increased cost of Customers Accounting and Collecting Expenses if the Gas Department were operated as an independent company. The increased cost for this group [R. p. 3902] of accounts, as per Engineers' Exhibit No. 221, amounts to $22,200.

Sales Promotion Expenses. Supervision. (See Schedules A and A-1). Supervision of the Sales Department for the independent gas company in Norfolk will require the services of a sales manager at a salary of $5,000 per year, an office assistant at a salary of $1,500 per year and a clerk at a salary of $1,000 a year, a total supervisory expense of $7,500 a year. 20 per cent of these salaries are charged to Merchandise and Jobbing, leaving $6,000 to be charged to this account Supervision in gas operating expenses.

Salaries and Commissions (See Schedules A and A-2). Sales department personnel for the independent gas com-

VIRGINIA GAS SYSTEM (Cont'd)

pany in Norfolk will be composed of four men, an industrial sales engineer to handle all contacts with present and prospective industrial gas customers at a salary of $4,000 a year; two commercial and residential sales engineers to handle contacts with present and prospective residential and commercial customers at a salary of $3,000 per year each and assisting these three engineers as office assistant and engineer we have assigned one employee, a man competent to keep all records and to assist these engineers in the conduct of their work, at a salary of $1,800 a year, a total of $11,800 assignable to gas operating expenses for the account [R. p. 3903] of Salaries and Commissions.

Demonstration (See Schedules A and A-3).

This account includes the cost of labor and materials used and expenses incurred in demonstrating the use of appliances and other equipment and it is my judgment that an independent gas company in Norfolk will find it necessary to conduct rather extensive demonstrations in the use of appliances, at least to the extent of that employed by the Virginia Electric and Power Company in operating the Gas Department at Norfolk. We, therefore, estimate that Demonstration Expenses will equal the amount now being spent under this account, that is $2,400 per year.

Advertising (See Schedule A).

This account includes the cost of labor and materials used and expenses incurred in connection with advertising for the purpose of promoting the sale of gas. It includes advertising in newspapers, periodicals, booklets, bulletins, and such like. It is my judgment that $3,600 a year is the very minimum that could be considered as a reasonable advertising budget for an independent gas operation in Norfolk.

It will be seen by reference to Schedule A that Virginia Electric and Power Company's Gas Department advertising expenses for the month of July was only $13.72, at

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VIRGINIA GAS SYSTEM (Cont'd)

which rate the annual advertising bill would be only $160. As a matter of fact, the advertising bill for the Gas Department for [R. p. 3904] six months ending June, 1941, amounted to $547, which is equivalent for a full year to $1,094, or about $1,100 which is the figure I have used. An independent gas company in Norfolk would, in my judgment, find it necessary to advertise extensively concerning the various uses of gas and being a new concern without the prestige of Virginia Electric and Power Company back of it would find it necessary to do considerable advertising of institutional or goodwill nature. This account does not include advertising in connection with merchandising or appliance sales.

Miscellaneous Sales Expenses (See Schedule A).

This account includes the cost of labor and materials used and expenses incurred in soliciting new business except amounts chargeable to the foregoing accounts. It does not include any expense incurred in connection with merchandising or appliance sales. Based upon the experience of Virginia Electric and Power Company, it is my judgment that $1,200 per year is a reasonable expectation for expenditure under this item. Reference to Schedule A will show that July expenditures for Virginia Electric and Power Company were only $11.14 which for a twelve-month period would be approximately $140. This is abnormal, the figure for six months ending June, 1941, for Virginia Electric and Power Company being $371, which for twelve months would produce a figure of $742. This also is abnormally low, having been [R. p. 3905] affected by a credit earlier in the year from a reserve set up some years ago to cover loss on rented appliances. Since the loss on rented appliances did not materialize, the reserve has been credited back to the operating account during the past few years. In view of these conditions, I believe $1,200 to be a reasonable figure. The increased cost for this group of accounts,

VIRGINIA GAS SYSTEM (Cont'd)

Sales Promotion Expenses, amounts to $7,800 per year for the independent gas operation in Norfolk as compared with its operation as a department of Virginia Electric and Power Company, adjusted in a few instances which I have mentioned to a normal basis.

Administrative and General Expenses. Operation. Salaries of General Officers and Executives (See Schedules B and B-1).

This account includes the compensation of officers and executives of the utility. Since the organization which I have set up for the operation of the Gas Department as an independent company is based upon operating under the supervision of Stone & Webster Service Corporation or some such service corporation, it is necessary, in my judgment, to have only four executive officers, a president at a salary of $10,000 a year; secretary-treasurer at a salary of $6,000 a year; a purchasing agent at a salary of $4,000 a year and a personnel and welfare officer at a salary of $3,000 a year; a total of $23,000 for salaries of [R. p. 3906] General Officers and Executives as against $11,500 now charged annually on a July 1941 basis to this account on the books of Virginia Electric and Power Company applicable to the Gas Department in Norfolk. These officers and their salaries represent my judgment, based on years of experience in the public utility business, which judgment has been checked and approved by Mr. Throckmorton, and Mr. Barnes, whose qualifications are in the record in these proceedings.

Q. Where you referred to a July basis, Mr. Holtzclaw, what do you mean when you mention that in connection with an annual adjustment? A. July, 1941 multiplied by the figure 12.

Q. Will you proceed, please? A. Other General Office Salaries (See Schedules B and B-2). This account includes the compensation of employees in the general or divisional

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VIRGINIA GAS SYSTEM (Cont'd)

offices of the utility, such as executive, accounting, treasury, legal, etc. An organization for such an independent gas company necessary to properly perform the duties ordinarily assigned to such employees as assistants and secretaries to general officers, the general accounting department, pay roll department, stenographers, typists, etc., would consist of 17 employees, with a combined salary of $26,600 a year. These employees would be as follows:

[R. p. 3907] Assistant to President and Secretary-Treasurer	$ 2,500
Secretary to President and Secretary-Treasurer	1,800
Chief Clerk, Accounting Department	3,600
Plant Accountant	2,700
Chief Pay Roll Clerk	2,400
Assistant Pay Roll Clerk	1,200
Cash Receipts and Disbursement Clerks (3)	3,400
Subsidiary Records Clerks (4)	4,700
Stenographers, Typist, Messenger (4)	4,300
Total—17 Employees	$26,600

I have checked my judgment in this matter with Mr. P. R. Williams, Comptroller of Virginia Electric and Power Company, and Mr. J. V. Mitchell, Assistant Comptroller of Virginia Electric and Power Company, Mr. P. R. Williams, previous to his connection with Virginia Electric and Power Company, was for many years an auditor engaged in auditing public utility companies of all sizes and character. Mr. J. V. Mitchell has for many years had close and active jurisdiction over matters pertaining to personnel engaged in general accounting for the Company. These men are in agreement with me that my estimate as to the requirements concerning this general office personnel and the salaries is conservative.

Assistant to President and Secretary-Treasurer and Secretary to President and Secretary-Treasurer.

VIRGINIA GAS SYSTEM (Cont'd)

[R. p. 3908] These employees will work closely with the General Officers, assist them with office routine and to a large extent handle routine matters which come up in the ordinary course of business from day to day.

Chief Clerk, Accounting Department. This employee would be assigned the responsibility for all accounting work of the Company, including general accounting, customers accounting, purchasing and stores accounting, etc. He would have certain specific duties to perform such as the preparation of financial, statistical and operating reports and the preparation of all Federal income and other Federal tax returns.

Plant accountant. In a gas company with a gross of $1,200,000 a year and a Plant Account of between $5,000,000 and $6,000,000, there is need for a well qualified man as Plant Accountant and there is sufficient detail work in connection with improvements to and retirements of property to require the employment of a man capable and well trained in this work. It is probable that such a man could prepare all real and personal property tax renditions and assist the Chief Clerk in the preparation of some of his reports.

Pay Roll Clerks (2). Two clerks would be necessary to properly record all pay roll detail work.

Cash Receipts and Disbursement Clerks (3). Three clerks will be necessary for this work and they should be able to [R. p. 3909] handle all record work in connection with purchase requisitions and orders, invoices, the payment of such invoices and the record of payment, as well as the receipt of all monies and bank reconciliations.

Subsidiary Records Clerks (4). These four clerks would be required to take care of all records of a routine nature, such as stock issue records, automotive operating data, miscellaneous receivable charges, scrap accumulation records, fuel records and inventory of supplies.

Stenographers, Typist, Messenger (4). This provides for employment of two full-time stenographers and a typist.

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It is possible that sometimes these may be used to advantage on clerical work. One messenger is included.

Expenses of General Officers (See Schedule B).

Traveling and miscellaneous expenses of general officers of an independent gas company in Norfolk will, in my judgment, amount to $1,800 a year as against $420 for the Gas Department of Virginia Electric and Power Company per year on a July 1941 basis, and $469 for the entire year of 1940. The Gas Department of Virginia Electric and Power Company is charged with only a small percentage of the expenses of general officers. It is my judgment that an average of $150 per month for traveling and miscellaneous expenses for general officers of the independent gas company would be necessary.

[R. p. 3910] Expenses of General Office Employees (See Schedule B). Traveling and miscellaneous expenses of general office employees will, in my judgment, amount to $200 a year as against $50 a year for the Gas Department of Virginia Electric and Power Company on a July 1941 basis, and as against $89 for the full year of 1940. Only a small percentage of the expenses of general office employees of Virginia Electric and Power Company is assigned to the Gas Department. It is my judgment that $200 a year is necessary in this account.

General Office Supplies & Expenses (See Schedule B). Annual expenses under this account on a July 1941 basis total $4,700 as against $4,905 for the full year of 1940. It is my judgment that the independent gas company may be expected to incur expenses of $4,700 under this account.

Management & Supervision Fees and Expenses (See Schedule B). As I have heretofore stated, the setup of this organization for an independent gas company in Norfolk is based upon operation under the supervision of a service company similar to Stone & Webster Service Corporation. The fee charged by Stone & Webster Service Corporation

VIRGINIA GAS SYSTEM (Cont'd)

is based upon gross revenue and outstanding securities. In the standard form of Stone & Webster Service Corporation contract, there is a fixed fee of $3,000 a year for companies doing more than $1,000,000 a year gross. In addition to this, [R. p. 3911] there is a charge equal to 1½ per cent of the annual gross revenue up to $4,000,000 and a further charge of 75 cents per $1,000 of outstanding securities.

Based upon gross revenues of $1,200,000 a year, which in this case is approximately the gross revenue of the Gas Department for the six months ended June 30, 1941 multiplied by two, and based further on $4,000,000 in securities to be outstanding, which I feel to be a conservative estimate, the Stone & Webster fee would be $24,000 a year, made up as follows:

Fixed Fee	$ 3,000
1½% of $1,200,000	18,000
75¢ per $1,000 on $4,000,000 Securities	3,000
Total	$24,000

Special Services (See Schedule B).

This item covers principally the expense of annual audits and is estimated to be $1,500 which is $300 per year higher than the normal annual charge of $1,200 to the Gas Department of Virginia Electric and Power Company for its proportion of annual audits of the entire Company. The figure for July 1941 on Schedule B is abnormally high, due to the fact that provision was made during this month for payment for special auditing services.

Legal Services (See Schedule B).

An independent gas company in Norfolk would require the [R. p. 3912] services of a competent legal firm at a fee which would not be less than $5,000 a year. $1,000 of this amount is charged to Injuries and Damages Reserve and $4,000 to Legal Services.

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VIRGINIA GAS SYSTEM (Cont'd)

Insurance (See Schedule B).

It is estimated that insurance for an independent gas operation in Norfolk under Stone & Webster Service Corporation supervision will be the same as for the Gas Department of Virginia Electric and Power Company.

(Injuries and Damages (See Schedule B).

It is estimated that the annual accrual to take care of Injuries and Damages will amount to $6,000 a year, the same as for the Gas Department of Virginia Electric and Power Company.

Employees' Welfare Expenses (See Schedule B).

It is estimated that the annual charge for Employees' Welfare Expenses will be the same as that now charged to the Gas Department of Virginia Electric and Power Company. The figure for the month of July representing expenses under this account is abnormally low due to receipt of a dividend on the Company's group life insurance policy. As a result of this dividend, contributions by the Company and dues by members of the Benefit Association were waived for the month of July.

Pensions (See Schedule B).

[R. p. 3913] If the Virginia Electric and Power Company should dispose of the Gas Department in Norfolk, it would take over all pension payments to employees on pension rolls, in which case there would be no pensions to be paid by the independent gas company.

Miscellaneous General Expenses (See Schedule B).

For the year 1940, Miscellaneous General Expenses of the Gas Department of Virginia Electric and Power Company amounted to $3,583. For six months ending June 1941, Miscellaneous General Expenses amounted to $1,727. Normal annual expenditures under this account, therefore, may

VIRGINIA GAS SYSTEM (Cont'd)

be expected to be $3,600. While this amount might be increased substantially in the case of the operation as an independent gas company in Norfolk on account of the preparation and publication of stockholders reports, dividend notices, transfer fees, etc., this amount for this purpose is being disregarded.

In the Taylor Report of August 1, 1941, Engineers Exhibit No. 202, certain operating expenses and interdepartmental services have been reallocated between departments and he has recommended a charge to the Gas Department covering free transportation on street cars and buses for Gas Department employees.

According to the Taylor Report, there are 176 employees of the Gas Department but in his report he has recommended a [R. p. 3914] charge to the Gas Department expenses of $1,474 per month for the months of July, August, and September, covering free transportation for Gas Department employees, undertaking to cover all regular employees of the Gas Department as well as employees engaged on temporary work. This figure of $1,474 per month for the month of July is, in my judgment, abnormal and a reasonable basis on which this free transportation should be charged is for 176 employees. We have, therefore, adjusted this figure to represent free transportation to 176 employees at a total of $11,440.

As stated above, in calculating Miscellaneous General Expenses for the independent gas company operation it is estimated that this will amount to $3,600 a year, the same as the normal annual expenses of the Gas Department of Virginia Electric and Power Company. In addition to this amount, however, representing normal miscellaneous general expenses, I am including on Schedule B under Miscellaneous General Expenses an amount to be included in the expenses of the independent gas company representing increased compensation to the employees of the Gas Depart-

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ment in lieu of free transportation which they will lose if the Gas Department is disposed of. This amount is $8,840, and represents $65.00 per employee per year for 115 regular employees of the Production and Distribution Departments of the gas operation, plus 21 employees now employed in the Gas Department of Vir [R. p. 3915]ginia Electric and Power Company who, in my judgment, will be employed by the independent gas company if the property is sold. This amount is set up opposite Miscellaneous General Expenses as an offset to transportation furnished to employees of the Gas Department of Virginia Electric and Power Company, although it is recognized that a wage or salary increase to employees in lieu of free transportation would not be charged to Miscellaneous General Expenses but would be charged to various pay roll accounts according to the employees' duties. I have shown it under Miscellaneous General Expenses as a lump sum for the sake of easy comparison.

Administrative and General Expenses Transferred—Credit (See Schedule B).

This represents credits of amounts recorded in Administrative and General Expenses which are properly includible in construction costs. This item represents a credit to General Expenses offsetting a charge to Construction based on a small percentage of construction charges for services rendered by general officers and employees in connection with addition to property account. In my judgment, it is reasonable to assume that an independent gas company would make a similar credit to Administrative and General Expenses and similar charges to Construction; so the item is estimated at the same amount as for the Gas [R. p. 3916] Department of Virginia Electric and Power Company.

Maintenance. Maintenance of Structures and Improvements, Office Furniture and Equipment and Miscellaneous Property are estimated to be the same amount for the in-

VIRGINIA GAS SYSTEM (Cont'd)

dependent gas company as for the Gas Department of Virginia Electric and Power Company.

The increased cost of operating the Gas Department as an independent company for this group of accounts, Administrative and General Expenses, amounts to $45,130 per year as compared with its operation as a department of Virginia Electric and Power Company, adjusted in some instances which I have mentioned to a normal basis.

The following is a summary of increases in operating expenses of the independent gas company in these accounts which I have discussed as against its operation as a department of Virginia Electric and Power Company:

	Increase in Cost
Customers' Accounting and Collecting Expenses	$22,200
Sales Promotion Expenses	7,800
Administrative and General Expenses	45,130
Total	$75,130

subject to an adjustment as mentioned in Note A of Engineers Exhibit 223.

Q. Mr. Holtzclaw, have you prepared a tabulation show- [R. p. 3917] ing the total additional expense from operating the Gas Department as an independent company? A. I have.

Q. Do you believe that this tabulation is correct? A. I do, with the adjustments mentioned in Note A on the tabulation.

Mr. Moore: Mr. Examiner, we now ask that this tabulation be marked for identification as Engineers Exhibit No. 224; and we offer it in evidence.

The Examiner: It is so admitted in evidence.

(The tabulation above referred to was received in evidence and marked Engineers' Exhibit No. 224.)

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VIRGINIA GAS SYSTEM (Cont'd)

Q. (By Mr. Moore) What is the total additional expense shown in this tabulation? A. The total increase in expenses which would result if the Gas Department is operated as an independent company due to loss of efficiencies resulting from discontinuance of joint operation amounts to $131,099, less the adjustment to be made as mentioned in Note A of Engineers Exhibit No. 224. This is divided as follows:

[R. p. 3918] Expenses now charged to Gas Department which would have to be absorbed by other departments in event of disposal of the Gas Department, as shown on Engineers Exhibit No. 222	$55,969
Increase in expenses of the Gas Department if the Gas Department is operated as an independent company as shown on Engineers Exhibit No. 223	75,130
Total	$131,099

which amount is subject to a small adjustment, as indicated on Engineers Exhibit No. 224.

Q. Mr. Holtzclaw, in your opinion as an expert utility operator, does the figure $131,099 subject to the adjustment that you have stated represent the economies which will be lost from operating the Gas Department as an independent company rather than in combination with the Electric system of Virginia Electric and Power Company? A. Yes, provided the Virginia Electric and Power Company continues to operate as at present except for disposal of the Gas Department. If the Company discontinues any of its incidental businesses, the loss of economies will increase.

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VIRGINIA GAS SYSTEM (Cont'd)

DONALD C. BARNES

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Further Direct Examination

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(By Mr. Tucker)

[R. p. 3997] Q. Mr. Holtzclaw introduced two exhibits in connection with his testimony in these proceedings on August 25, 1941 entitled "Engineers' Exhibit No. 223" and "Engineers' Exhibit No. 224". Each of these exhibits contained a footnote stating that you would testify subsequently regarding the executives and experts to be required, the expense of employing them and the portion of such expense which would be borne by the Gas Department if it continued to operate jointly with the Electric Department.

Based on the testimony which you have just given, will you please state what amount would be borne by the Gas Department of the Virginia Electric and Power Company, first, if that company were operated independently and, second, if operated as an associate company in a holding company system consisting of Virgania Electric and Power Company and Savannah Electric and Power Company? [R. p. 3998] A. If you will refer to Engineers' Exhibit 230 which I have just introduced you will find the added cost of supervision of Virginia Electric and Power Company as an independent unit would be $152,800. The cost of this service would be allocated between departments in approximately the same ratio as the gross revenues of these departments.

On the basis of 1940 operations this would result in the assignment of 5 per cent of this cost to the Gas Department, or a total amount of $7,640.

If Virginia Electric and Power Company and Savannah Electric and Power Company were operated in a combined

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VIRGINIA GAS SYSTEM (Cont'd)

holding company system, this Exhibit 230 shows that the cost of supervision to Virginia Electric and Power Company would be $137,800. Therefore, the portion to be borne by the Gas Department would be 5 per cent of this amount or $6,890.

Q. What effect, if any, do you think the disposition of the Gas Department would have on the costs necessary to provide adequate supervision for Virginia Electric and Power Company in case it was operated as an independent company or as an associate company in a holding company system consisting of Virginia Electric and Power Company and Savannah Electric and Power Company? A. In my opinion, no reduction in cost could be effected if the gas property were disposed of as all of the personnel which I have included in my estimate would be [R. p. 3999] required whether or not the Gas Department was operated as a part of the Virginia Electric and Power Company system.

Q. If the Gas Department of Virgina Electric and Power Company were disposed of what would be the effect under these circumstances on the expenses charged to the Gas Department which would have to be absorbed by other departments and what would be the effect on the increased expense of the Gas Department if the Gas Department were operated as an independent company? A. The expenses to be absorbed by other departments would be increased by the amount of supervision cost allocated to the Gas Department, namely, $7,640, in the event Virginia Electric and Power Company operated as an independent company and $6,890 if the company operated as an associate company in a holding company system consisting of Virginia Electric and Power Company and Savannah Electric and Power Company, and correspondingly the increase in expenses of the Gas Department if the Gas Department were operated independently would be reduced by these amounts

VIRGINIA GAS SYSTEM (Cont'd)

respectively so that the net effect on the total increase in expenses which would result if the Gas Department were operated as an independent company due to loss of efficiency resulting from joint operation would not be changed but would remain in the amount as testified to by Mr. Holtzclaw, namely, $131,099.

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J. V. MITCHELL

Further Cross Examination

[R. p. 4081] Q. (By Mr. Fischgrund) Mr. Mitchell, referring to Engineers' Exhibit 221, page 2, do the employees shown there represent all the employees who would do customers accounting and collecting work for the independent gas company? A. Yes, sir.

Q. And the $60,300.00 of expense for customers accounting and collecting for the independent gas company represents all of the customers accounting and collecting expense for the independent gas company?

Mr. Tucker: You are now referring to page 1 of that Exhibit?

Mr. Fischgrund: That is correct.

Mr. Tucker: The third column?

[R. p. 4082] Mr. Fischgrund: That is correct.

The Witness: Yes sir.

Q. (By Mr. Fischgrund) And at present some of the customers accounting and collecting expense is charged to merchandising and jobbing? A. Under the present arrangement?

Q. That is correct. A. That is, covering both electric and gas?

Q. That is right.

The Witness: Will you repeat his question please?

(The question was read by the reporter.)

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The Witness: Yes, a small part of it is.

Q. (By Mr. Fischgrund) Then the $38,100.00 figure shown on page 1 of Engineers' Exhibit 221 and the $60,300.00 figure likewise shown there are strictly not comparable, as the $38,100.00 is after an allocation of a portion of customers accounting and collecting expenses to merchandising and jobbing, while the $60,300.00 figure is before such allocation, is that not correct? A. In the $38,100.00 figure there has been made some small apportionment of expense to the merchandise and jobbing business. The total amount of the $60,300.00 has [R. p. 4083] been considered as being customers accounting and collecting expenses.

Q. Why was not an allocation of a portion of the $60,300.00 figure to merchandising and jobbing made? A. There was no apportionment made of the $60,300.00 figure to merchandise and jobbing because of the relative smallness of the amount involved.

Q. Well, about how much would you estimate that the allocation to merchandising and jobbing amounted to, or would amount to?

Mr. Moore: You mean to be included in the $60,300.00?

Mr. Fischgrund: Either to be included in the $60,300.00 figure, Mr. Moore, or from the amount that was charged during the month of July to merchandising and jobbing on customers accounting and collecting, or otherwise obtaining a general estimate of the amount of that figure.

Mr. Moore: Well, I just wanted to be sure the witness has clear in his mind what you wanted.

The Witness: Right now, at the present time I do not know just how much would be chargeable to merchandise and jobbing business.

Q. (By Mr. Fischgrund) Would you estimate that it would be more than $500.00? [R. p. 4084] A. Yes, I should think it would be more than $500.00.

VIRGINIA GAS SYSTEM (Cont'd)

Q. Much more? A. I do not think it would exceed $2,000.00 for the year, but that is a strictly—entirely a very rough estimate.

Q. And you thought that $2,000.00 was such a small amount that it did not justify being signified by a reduction from the $6,300.00. A. We did not feel that it was sufficiently large to involve this statement.

Q. Perhaps there are other such items of adjustment that you did not feel were large enough to require adjustment? A. I do not think so.

Q. You mean you cannot think of any at the present time, or you would not be certain that there is not any? A. I feel quite confident that there are not.

Q. Do you not have the amount of the customers accounting and collecting expense which were charged to merchandising and jobbing during the month of July? A. No, I do not.

Q. Do you know the amount of customers accounting and collecting expense charged to merchandising and jobbing during 1940? A. No, I do not.

[R. p. 4085] Q. Well, if you will turn to page 45 of Engineers' Exhibit 202, which is the report prepared by Mr. Taylor, you will see that $14,271.00 of customers accounting and collecting expense was charged to merchandising and jobbing, of which $1,857.00 was charged to the gas department. A. On page 45.

Q. That is right. Is that not correct? A. Mr. Taylor's report, which was filed as Exhibit 202, included a statement of merchandise and jobbing separated between electric and gas, which was prepared by him and which included certain expenses which he thought were properly chargeable against merchandise and jobbing, but which during 1940 had been charged to operating expenses. Just what those amounts were I do not know.

Q. But it is your opinion that page 1 of Engineers' Exhibit 221, in particular the figures of $38,100.00 com

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VIRGINIA GAS SYSTEM (Cont'd)

pared with $60,300.00 is off by $2,000 with respect to the failure to make an adjustment for charges to merchandising and jobbing? A. I just testified that a very rough estimate, according to my opinion, would mean that there was probably an amount not in excess of $2,000 which might be chargeable against merchandise and jobbing business and which is included in the total figure of $60,300 as shown on page 1 [R. p. 4086] of Exhibit 221.

Q. And which should be deducted from it? A. And which, to exclude merchandise and jobbing, should be deducted from the figure.

Q. That is, from the $60,300? A. Yes sir.

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R. J. THROCKMORTON

Cross Examination

(By Mr. Fischgrund)

[R. p. 4114] Q. Mr. Throckmorton, referring to Engineers' Exhibit No. 220-B, you have observed that it is shown that the transportation expense for the Gas Department for customers' accounting and collecting during the month of July amounted to $33.36. A. Which exhibit is that?

Q. Engineers' Exhibit No. 220-B. A. Yes.

Q. Then, the transportation expense for customers' accounting and collecting, for all the combination service, Electric and Gas customers, would amount to just twice that, or $66.72, approximately? A. Let me familiarize myself with this exhibit, will you?

Q. Surely.

The Witness: Read that question, please, Mr. Reporter.

(Whereupon, the pending question was read by the reporter.)

The Witness: I do not understand what you mean by "twice that".

VIRGINIA GAS SYSTEM (Cont'd)

Q. (By Mr. Fischgrund) Do you recall Mr. Mitchell's testimony that the customers' accounting and collecting expense for the combination electric customer in Norfolk would amount to about the same as the customers' accounting and collecting expense charged to the gas department in Norfolk? [R. p. 4115] A. No, the transportation expense to the electric is a great deal more than to the gas department, because they go into the outlying territory.

Q. I am just referring to the transportation expense for combination service electric customers. The amount of that expense, just for such electric customers, would be the same amount that was charged to the gas department? A. I would say so, yes.

Q. So that that would amount to $66.72, transportation expense, for the combination electric and gas customers in Norfolk? A. For the month of July—yes.

Q. Now, Mr. Throckmorton, how do you reconcile the transportation expense of $66.72 for customers' accounting and collecting of both electric and gas combination service customers in Norfolk, with your estimate of $200 a month for the gas department, if alone, as an independent company? A. Well, we estimated that——

Mr. Tucker: (Interposing) Just a moment; you have the wrong line there, and I think you are going to get a mixed record.

Mr. Moore: You referred to Exhibit 221, page 2?

Mr. Fischgrund: That is correct.

Mr. Moore: The transportation figure there is 1200, you say?

[R. p. 4116] Mr. Fischgrund: The amount under transportation for meter reading is $1200 a year, and transportation under collecting is $1200 a year, which is a total of $2400 a year.

Mr. Moore: I beg your pardon, it is in both places. I am sorry. We were looking at just one place.

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VIRGINIA GAS SYSTEM (Cont'd)

The Witness: There is an expense of transportation under meter reading on this Exhibit 220-B.

Q. (By Mr. Fischgrund) Does not the $33 represent the total of transportation expense for customers' accounting and collecting? A. I am not familiar with the exhibit, I just saw that there—yes, I think it does.

(By Mr. Fischgrund):

Q. Then, I ask you again, how do you reconcile the transportation expense for customers' accounting and collecting work of $33.36 to the gas department alone, or $66.72 for the electric and gas combination customers, with your estimate of $200 a month for transportation expenses for the gas department if it was alone, as an independent company? A. Well, our estimate is that an automobile in the meter reading department and in the collecting department will average approximately 25,000 miles a year, and, based on a cost of 5 cents a mile, which is our over-all cost of our transportation expense.

Q. Well, how do you estimate that you need that amount of mileage and that amount of automobile expense if you only [R. p. 4117] have $66.72 worth of transportation expense for customers' accounting and collecting of both gas and electric combination service customers in Norfolk? A. I do not know; there must be something wrong with these figures.

Q. There must be something wrong with the estimate? A. My estimate, or something; I just think that our experience has been that a meter-reading car and a collection car—the collectors and the meter readers will average approximately 25,000 miles a year, and we took 24,000 and based it at 5 cents a mile and we arrived at this amount. Each department will have to have an automobile, the meter-reading department and the collection department.

Q. Well, if there is only $66.72 for both electric and gas combination service customers in Norfolk at present, they

VIRGINIA GAS SYSTEM (Cont'd)

cannot travel that much mileage, can they, or is there something wrong some place? A. No, at $66, you could not travel any such mileage as that.

Q. Perhaps they do not have to travel that far, is that not possible? A. Well, it might be, and then, they might have to travel farther.

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(Appendix pages 608 to 664, inclusive, contain excerpts from the transcript of hearings before the Trial Examiner of the Commission, held pursuant to the Commission's Order under Section 11(b)(1) of the Act. The numbers in brackets indicate the paging of the certified transcript, which are the same as that of the original reporters' transcript. Corrections have been made in these excerpts in conformity with the corrections set forth in Document No. 417—R., pp. 8149-8228.)

TRANSPORTATION (BATON ROUGE BUS COMPANY)

[R. p. 5312] H. C. LEONARD

was called as a witness for and on behalf of the Applicant and, having been first duly sworn, testified as follows:

Direct Examination

Q. (By Mr. Breckinridge) Q. Will you please state your name, address and business connection? A. My name is H. C. Leonard. My business address is Gulf States Utilities Company, Baton Rouge, Louisiana. I am vice-president of Gulf States Utilities Company.

Q. Will you please state briefly your education, expedience and qualifications for the position which you hold? A. I graduated from the Worcester Polytechnic Institute in 1916 with the degree of B. S. in electrical engineering, and received the degree of M. S. in electrical engineering from Union College in 1919.

BLEED THROUGH- POOR COPY

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

My work during the past twenty years has been with companies associated with Stone & Webster and with Engineers Public Service Companies. I was employed by Stone & Webster Engineering Corporation in 1920 and served approximately six months as a field appraisal engineer and about a year as electrical draftsman of power installations in the Boston office of Stone & Webster Engineering Corporation.

From 1921 to 1930, I worked for the Virginia Electric [R. p. 5313] and Power Company, first as an efficiency engineer in the Richmond Power Station, later as design engineer in charge of the design and installation of power stations, substations and transmission lines, later as electrical engineer for the entire system, then as electrical engineer for the entire system, then as superintendent of the electric department of the Norfolk Division, and finally as general manager of the electric department of the Richmond Division.

In 1930, I was transferred to the El Paso Electric Company as general superintendent in charge of the electrical operating departments and of the Mesilla Valley Electric Company. In 1935, I was transferred to the Gulf States Utilities Company as vice-president in charge of the Lake Charles Division. In 1936, I was transferred to Baton Rouge as president of the Baton Rouge Electric Company and Louisiana Steam Generating Corporation. When these companies were merged with the Gulf States Utilities Company in 1938, I was made vice-president of Gulf States Utilities Company in charge of the properties in Louisiana, and was elected a director of this company, which positions I now hold.

In 1936, when I was transferred to Baton Rouge, the Baton Rouge Electric Company owned the Baton Rouge Gas propertites and from that date until the merger of the Baton Rouge Electric Company into Gulf States Utilities Company [R. p. 5314] in 1938, I supervised the operation of those gas properties as president of Baton Rouge

H. C. Leonard—Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Electric Company. Since that merger, I have supervised those gas properties as vice-president of Gulf States Utilities Company.

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H. C. LEONARD

Further Direct Examination

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(By Mr. Tucker)

[R. p. 1548] Q. Do you have before you a map showing the bus route of the Baton Rouge Bus Company, Inc.? A. I have.

Q. Was this map prepared under your supervision? A. It was.

Q. Do you believe it to be correct? A. I do.

Mr. Tucker: I would like to have the map marked for identification only at this time as Engineers' Exhibit 92.

The Examiner: The map is marked for identification as Engineers' Exhibit 92.

(The map referred to was marked as Engineers' Exhibit No. 92 for identification.)

Q. (By Mr. Tucker) What does this map indicate? A. It shows that the company has three principal bus routes, known as the East Boulevard-North Boulevard line shown in blue, the North Baton Rouge-Park Boulevard line shown in brown, and the University line shown in green, all located within the city limits and suburbs of Baton Rouge, Louisiana. It also shows in orange three routes that have been established since January 1, 1941, namely, the shuttle route between the [R. p. 1549] northern terminus of the North Baton Rouge line to the parish airport; the New State Capital-Choctaw road line; and the Perkins road line.

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Also shown in red on the map is the location of the bus garage.

Mr. Tucker: I would like to offer this map in evidence as Engineers' Exhibit 92.

The Examiner: It is so admitted.

(Engineers' Exhibit No. 92 received in evidence.)

Q. (By Mr. Tucker) Do you have before you a picture of the bus garage? A. I do.

Mr. Tucker: I would like to offer in evidence as Engineers' Exhibit 93, this picture of the bus garage.

The Examiner: It is admitted under that exhibit number. (Engineers' Exhibit 93 received in evidence.)

Q. (By Mr. Tucker) Will you please describe the bus garage? A. This garage was originally designed and built as a carbarn in 1925. It is of brick, concrete and steel construction. There are located in this building storerooms, cashier's office, employees' wash and locker rooms, machine shop, repair shop, paint shop, blacksmiths' shop and the offices of the superintendent of transportation and the superintendent of [R. p. 1550] equipment.

There are also two small buildings of galvanized iron construction used for storing paints, oils, greases, tools, and so forth.

Adequate fire protection is provided at this building by use of a sprinkler and fire alarm system and four fire hydrants, one located at each corner of the building.

Adjacent to this garage and on the same plot of ground there is presently being constructed a new brick and concrete paint shop.

Q. What sort of repair work is done at this garage? A. There are at this garage a variety of machines and instruments used in the maintenance of buses. These machines have been bought from time to time so that all maintenance

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

work could be done at the garage by the company's mechanics at a lower cost than by having special work done in independent local shops and garages.

We have a very completely equipped repair shop.

In order to still further reduce the cost of maintenance, the company has an extra starter, generator, fuel pump, distributor, voltage regulator, air compressor and brake shoes for each type of bus it owns.

When trouble is experienced with one of these units, it is replaced with a reserve one. The broken one is repaired in the latter part of the day after all buses have been inspected and repaired.

[R. p. 1551] Q. Do you have a regular schedule for inspecting buses? A. Yes. Buses are inspected at the end of every 2,000 miles. At this inspection the bus is greased and the carburetor, fuel pump, distributor, starter, generator, voltage regulator, battery, tires, brakes, lights, fan, oil filter, fan belts, air and water hoses are inspected and repaired or replaced.

In addition to this thorough inspection, all buses are given a visual inspection when they come into the garage after the completion of the day's run. This inspection consists of a check of the motor for performance. The ammeter, air gauge, heat indicator, and oil pressure gauge are checked to see if they are properly functioning. The body is gone over and any defects that may be hazardous to a passenger are repaired.

Any defects in the bus that are reported by the operator are repaired, and the bus is filled with gasoline, water and oil. After the tires and battery are checked, the bus is sent to the wash rack for washing.

Q. Please describe the transportation equipment of your company. A. The Baton Rouge Bus Company, Inc. has thirty-two buses, one automobile and one service truck.

H. C. Leonard—Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Twenty-two of these buses and the service truck were purchased from Baton Rouge Electric Company in 1938. The other ten buses and the automobile have been bought since the Bus Company was organized August 1, 1938. In addition, four 28-passenger buses are on order for delivery this summer. I have a schedule showing the age and manufacture [R. p. 1552] and other details regarding the existing equipment.

Q. Was this schedule prepared under your supervision? A. Yes.

Q. Do you believe it to be correct? A. Yes.

Mr. Tucker: I ask at this time to have this schedule marked for identification as Engineers' Exhibit No. 94.

The Examiner: The schedule will be marked for identification under this number.

(The schedule referred to was marked as Engineers' Exhibit No. 94 for identification.)

Q. (By Mr. Tucker) What does this schedule show regarding the age of the buses? A. It shows that five of the buses were purchased in 1933, four in 1935, six in 1936, three in 1937, seven in 1938, two in 1939 and five in 1940.

Mr. Tucker: I offer in evidence at this time this as Engineers' Exhibit No. 94.

The Examiner: It is admitted.

(Engineers' Exhibit No. 94 received in evidence.)

Q. (By M. Tucker) Do you consider that this equipment is in good operating [R. p. 1553] condition? A. Yes, I do. The majority of the buses are comparatively new. Perhaps the best way to indicate their condition is to show you pictures of each type of bus.

Q. Do you have with you in the form of one exhibit photographs of each type of bus used? A. Yes.

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. Do these photographs show these buses substantially as they exist today? A. Yes.

Mr. Tucker: I would like to have this marked for identification as Engineers' Exhibit No. 95.

The Examiner: It will be so marked.

(The photographs referred to were marked as Engineers' Exhibit No. 95 for identification.)

Q. (By Mr. Tucker) Will you discuss these photographs, please? A. I have here a picture of the type of bus purchased in 1933, Plate No. 1——

Q. (Interposing) That is Plate No. 1 in Exhibit No. 95? A. That is correct.

Q. Go ahead. A. (Continuing)—a picture of the type purchased in 1935, Plate No. 2; a picture of the type purchased in 1936 and [R. p. 1554] 1937, Plate No. 3; a picture of the type purchased in 1938 and 1939, Plate No. 4; and a picture of the type purchased in 1940, Plate No. 5.

These buses are kept in excellent operating condition by our maintenance department. They are painted every two years or earlier if necessary. Damages sustained in accidents are immediately repaired, and equipment repainted so that it makes the best possible appearance at all times.

As all buses are thoroughly cleaned nightly, and during the day if they happen to go back to the garage, they are unusually neat, clean and attractive to the riders.

Mr. Tucker: I would like to offer this at this time as Engineers' Exhibit No. 95.

The Examiner: The five plates in this exhibit are received in evidence.

(Engineers' Exhibit No. 95 received in evidence.)

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H. C. Leonard—Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. (By Mr. Tucker) Please give us a brief outline of the history of the transportation system in Baton Rouge. A. The City of Baton Rouge was first afforded the service of a street railway system in 1890. The first street cars were drawn by mules. However, in 1893 an electric system was inaugurated, changing hands several times, until the year 1900, when its ownership and operation were taken over by Baton Rouge [R. p. 1555] Electric and Gas Company.

In 1909 the properties were conveyed to Baton Rouge Electric Company, which company acquired electric and gas utilities along with the electric railway system.

Many additions were made to the street railway system, including an extension in 1925 to North Baton Rouge.

In the same year, Louisiana State University was moved to its present location three miles south of the City of Baton Rouge, and to provide the University students with means of transportation the company began operation of its first bus line which extended service there.

Mr. Lester: What year was that?

The Witness: 1925.

Also, in 1925, the company completed and occupied a new brick and steel carbarn located on the North Baton Rouge line, a picture of which has already been introduced in evidence as exhibit——

Q. (By Mr. Tucker) No. 93. A. —93.

The advent of privately owned automobiles began to make serious inroads into the revenue of the railway system which began dropping in 1927 and continued until 1932, when the expenses of the transportation department far exceeded the revenues.

[R. p. 1556] Caught in the midst of a depression with thousands unemployed, the people of Baton Rouge were unable to patronize any transportation service extensively, whether it were rendered on rail or rubber.

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

The company decided to reduce their losses by replacing the East Boulevard street car line with a bus line using the University line buses for this purpose and substituting new buses for those operating on the University line.

In order to further reduce expenses to meet these declining revenues, in December, 1933, the company substituted a bus line for the North Baton Rouge street car extension, new buses being put in operation on this line.

The street car tracks and equipment had been gradually charged off the books until in 1935 the balance was practically written off. The final charge-off was not made until 1938, when the last private right-of-way was disposed of.

Q. What fare had been charged on these lines? A. The company experimented with several rates on the North Baton Rouge and University lines and in February, 1936, the fare on the University line was reduced to five cents each way. This fare met with instant approval and the increased riding was more than enough to justify the reduction from the former 15-cent roundtrip fare.

Because of the marked success of the reduced fare on the University line, the company reduced the through fare on the [R. p. 1557] North Baton Rouge line from 10 cents to 7 cents, while retaining two 5-cent fare zones, one from the south end of the line to the city limits, at the Hammond and Eastern Railroad and the Plank Road, and the other from this point to the north end of the line in Istrouma. These rates still prevail.

Q. When was the street railway system finally discontinued? A. This was done in April, 1936.

The remaining street car line, known as the city belt, was replaced by a bus line, certain new buses being purchased in connection with this substitution.

Q. What can you say, Mr. Leonard, with respect to the cooperation between the predecessor of Baton Rouge Bus

BLEED THROUGH— POOR COPY

Company, Inc. and the city authorities in the matter of establishing bus lines and abandonment of street railway lines? A. In 1925, a request was made for some form of transportation to the University. In order to avoid the expense of the construction of a street railway line to furnish this service, the company proposed the establishment of a bus route to the University. Application was accordingly made to the City Council for the operation of this bus route, and consent of the City Council was granted by ordinance.

In 1932, because of the unprofitable nature of street railway operation on the East Boulevard line, the campany proposed to the City Council that the street railway line on that route be abandoned and bus substitution authorized. The City Council [R. p. 1558] by ordinance gave its consent to such abandonment and such bus operation.

In 1933, a similar situation arose in respect of the North Baton Rouge line, and here again the company requested the City Council to permit the company to abandon that street railway route and substitute buses therefor. The City Council gave its consent to such abandonment and the operation of such bus route by ordinance.

Between 1933 and 1935, the only remaining street railway line was the route known as the city belt line. Here again the City Council granted its consent to such abandonment and substitution of buses by ordinance, and this abandonment finally ended the operation of street railways in Baton Rouge.

In connection with the last abandonment an arrangement with the City Council was carried out whereby the company paid to the City $20,000 in consideration of the release by the City of all of the company's street railway franchise obligations.

Q. What effect did this changeover have on the transportation department? A. As the depression lifted, Baton

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Rouge again began to grow and the transportation business began to pick up. New equipment was added until in 1937, in order to eliminate duplicate service and serve new territory that was sufficiently populated to justify bus service, the company revised its transportation system.

[R. p. 1559] Q. How was this done? A. The revised system consisted of 13.15 miles of route compared to 12.37 before the revision. However, the new system served 4.2 miles of new territory by eliminating duplicate service. This revision was successful and riding increased to such an extent that revenues of 1938 were well above the previous high of 1926.

To take care of this additional business, the company bought ten new buses between September 1, 1936 and July 31, 1938.

Q. What was the reason for the organization of the Baton Rouge Bus Company, Inc.? A. This was necessary because of the consolidation of the properties of Baton Rouge Electric Company and Louisiana Steam Generating Corporation with those of Gulf States Utilities Company. The Articles of Incorporation of Gulf States Utilities Company did not permit it to engage in the operation of a transportation business. All three of these companies whose properties were being consolidated were subsidiaries of Engineers Public Service Company.

Therefore, on August 1, 1938, Baton Rouge Bus Company, Inc. was incorporated under the laws of Louisiana and all of the stock, consisting of 2,000 shares of no-par value capital stock, was issued and sold to Engineers Public Service Company for $90 a share, or an aggregate of $180,000.

[R. p. 1560] Using a portion of the cash from the sale of its securities, the new company purchased the physical property of the transportation department of Baton Rouge

BLEED THROUGH— POOR COPY

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Electric Company on that date, together with its city franchise and certificates of public convenience and necessity issued by the Louisiana Public Service Commission.

Q. What was the physical property acquired by the bus company at the time of its organization? A. The bus company acquired the garage and grounds, office equipment, 22 buses, one passenger car, one service truck, tools, machines and other equipment, for a total of $148,237. This figure represented the depreciated book value of all the property in the transportation department of Baton Rouge Electric Company except certain materials and supplies and other incidentals which were taken over at cost; namely, $4,825.46. The remainder of the proceeds of the capital stock sold for $180,000; namely, $26,937.58, was placed in the treasury of the bus company for its working capital.

Q. Has an opportunity ever presented itself for the disposition of the transportation business in Baton Rouge? A. Yes.

In 1935, Baton Rouge Electric Company was approached by representatives of the National City Lines, a subsidiary of the Rex Finance Corporation of Chicago, Illinois, about the possibilities of purchase of the transportation properties and franchise. [R. p. 1561] A survey of the entire system was made by a transportation expert connected with General Motors Truck Company, and following this survey and negotiations a sales price of $40,000 was agreed upon provided the transfer could be carried out with the good will of the people and the approval of the officials of the City of Baton Rouge.

Q. What did you do about this offer? A. We attempted to secure the sanction of the Commission Council of the City of Baton Rouge and a conference was arranged for December 27, 1935.

At this meeting all three of the Commissioners expressed their disfavor when informed of the proposed sale. The

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Mayor was of the opinion that if Baton Rouge Electric Company could not make any money in the transportation business in Baton Rouge, then no one else could. Mr. Ricaud, City Commissioner of Finance for 20 years, said that no one else in the United States could operate a transportation system more efficiently than Stone & Webster, that their electric, gas and transportation operations in Baton Rouge had always been regarded and were still regarded by the Commission as a triumvirate, that the only trouble with other cities in the United States where difficulties with light, gas and transportation service were experienced was that they did not have Stone & Webster operating them, and that so far as he was concerned, there would be no use of anyone trying to explain to him how or why any other [R. p. 1562] company could offer Baton Rouge any improved service over that of the Baton Rouge Electric Company.

After suggesting that the Council would consider such a transfer only on the condition that Baton Rouge Electric Company stand between the National City Lines and the City, the Mayor broke up the conference by saying that the best time for representatives of the National City Lines to meet the Commission would be on New Year's Day. His meaning was clear as it was generally understood that he would be in New Orleans for the Sugar Bowl football game on that date.

Subsequent meetings with the members of the Commission, separately, proved that it would be impossible to sell the transportation business without the proposition being put to a vote of the people. There was no doubt in the minds of all concerned that the city officials were going to fight the proposed sale. Therefore, Baton Rouge Electric Company withdrew its offer and all further negotiations on the subject were abandoned.

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H. C. Leonard—Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. Do you have with you in the form of an exhibit photostats of three letters written in connection with the proposed disposition of the transportation business which you have discussed? A. Yes.

Q. Were those photostats prepared under your supervision? A. Yes.

[R. p. 1563] Mr. Tucker: I would like to offer these in evidence as Engineers' Exhibit No. 96. I suppose that counsel for the Commission would like a little time to look this over.

Mr. Lester: We would, thank you.

(Short interval.)

Mr. Lester: I would like to ask the witness one or two questions.

Mr. Tucker: I would like to ask him one or two questions before you do, and perhaps it will not be necessary.

(By Mr. Tucker)

Q. In the first place, how many letters are contained in this proposed exhibit; and give us the dates, in each case. A. There are three letters in the proposed exhibit. The first one is dated December 27, 1935, is on the stationery of the Baton Rouge Electric Company, is addressed to Mr. T. J. Hanlon, Jr., Engineers Public Service Company, Inc., 90 Broad Street, New York, and it is signed——

Q. (Interposing) It is signed by three initials. What are those initials? A. R. S. N., Roy S. Nelson, then president of the Baton Rouge Electric Company.

Q. The second letter is dated January 23, 1936, on the stationery of the Baton Rouge Electric Company, is addressed to Mr. E. Roy Fitzgerald, president of the Rex Finance Corporation, Chicago, Illinois, and is signed by R. S. N., which are [R. p. 1564] the initials of Roy S. Nel-

son, president of the Baton Rouge Electric Company at that time.

The third letter is dated January 28, 1936, from the Rex Finance Corporation, in Chicago, to Mr. Roy S. Nelson, president of the Baton Rouge Electric Company, and is signed by Mr. E. Roy Fitzgerald, president of the Rex Finance Corporation.

Mr. Tucker: Are there any further questions, Mr. Lester?

Mr. Lester: Yes.

I notice there a reference to Stone & Webster. Were they at that time managing Baton Rouge Electric Company?

The Witness: Stone & Webster was not managing the Baton Rouge at that time. It was managed by the Engineers Public Service Company, but Stone & Webster and the Engineers Public Service were used synonymously.

Mr. Tucker: In Baton Rouge by the public?

The Witness: In Baton Rouge by the public, and for that matter still are.

Mr. Lester: That is all.

The Examiner: The three letters, in photostatic form, are received as one exhibit, Engineers' Exhibit No. 96.

(Engineers' Exhibit No. 96 received in evidence.)

Q. (By Mr. Tucker) Do you have an organization chart of the bus company [R. p. 1565] personnel? A. I do.

Q. Was this prepared under your supervision? A. It was.

Q. Do you believe it to be correct? A. I do.

Mr. Tucker: I would like to have the chart marked for identification at this time as Engineers' Exhibit No. 97.

The Examiner: It will be so marked.

(The chart referred to was marked as Engineers' Exhibit No. 97 for identification.)

BLEED THROUGH— POOR COPY

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. (By Mr. Tucker) By reference to this chart, please indicate the organization of this company. A. You will notice from this chart that the principal officers are the president, senior vice president, vice president and manager, and treasurer. The superintendent of equipment, who is in charge of the maintenance of the equipment, and the superintendent of transportation, who is in charge of the transportation of the company, report to the superintendent who is in charge of all operations. The claim division also reports to the superintendent. The treasurer has under his supervision the assistant treasurer, the tax department, the construction accounting department, the insurance department, [R. p. 1566] the chief clerk and his assistant, and the general accounting department, consisting of 17 employees.

Q. Do these individuals work solely for the bus company? A. No. You will notice from the red colored blocks that all of the individuals show on the chart except the superintendent, superintendent of equipment and superintendent of transportation, are joint-use employees, which mean that they are on the payroll of both Baton Rouge Bus Company, Inc. and Gulf States Utilities Company.

Mr. Tucker: At this time I would like to offer the chart in evidence as Engineers' Exhibit No. 97.

The Examiner: Let it come in under that number.

(Engineers' Exhibit No. 97 received in evidence.)

Q. (By Mr. Tucker) What sort of public relations does the bus company have in Baton Rouge? A. The Baton Rouge Bus Company, Inc. and its predecessor, Baton Rouge Electric Company, have always enjoyed excellent public relations.

The public's satisfaction with the service of the Baton Rouge Bus Company, Inc. is showed by their increased use

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

of its facilities. In 1930, the population of the territory served was 45,000, and in that year we transported 3,000,156 passengers on our lines. According to figures furnished by the [R. p. 1567] Baton Rouge Chamber of Commerce, the population in 1940 was estimated to be 70,000, an increase of 25,000 people, or 55.5 percent. That same year, 5,542,556 passengers made use of the service of the company, an increase of 2,542,400, or 84.7 percent. In other words, during the 11 years, 1930 through 1940, the population of the City of Baton Rouge and its suburbs increased approximately 55 percent while the increase in passengers carried by our company was 85 percent.

Although such relationship may be attributed to several factors, the basic element which insures the satisfaction our patrons is that they furnished safe, swift and dependable service with clean and modern equipment at a popular fare.

To illustrate the peak headways are five to eight and one-quarter minutes throughout our principal lines. As of December 31, 1940, 88 percent of our equipment then in use had only an average age of 31 months. For the greater portion of our lines the fare is 5 cents.

We carry school children on our lines at 3/5ths our regular fare. Last year we hauled 137,787 school children. We are required by our city franchise to maintain this fare for school children within the city limits, only. Although four of the five Baton Rouge high schools are outside the city limits, we have carried these children for this low fare. This service has contributed greatly to the public's satisfaction with our lines in Baton Rouge.

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

H. C. LEONARD

Cross Examination

(By Mr. Fischgrund)

[R. p. 1573] Q. Referring, Mr. Leonard, to Engineers' Exhibit No. 93, which is the picture of the bus garage, that bus garage is also the central office of the Baton Rouge Bus Company, Inc., is that correct? A. No, that is not quite true. I testified this morning that it had the storeroom located there, the storeroom, supply room, and the office of the superintendent of equipment. The main offices are in the same building that houses the central activities of the Gulf States Utilities Company in Baton Rouge.

Q. The bus garage, however, houses only bus equipment and bus offices? A. That is correct.

Q. And it is also correct, is it not, that there are no joint facilities between Baton Rouge Bus Company, Inc., and Gulf States Utilities Company? A. You are referring to this property. That property is used entirely for the Baton Rouge Bus Company, Inc.

Mr. Moore: The question was broader than that, though.

The Witness: I answered to restrict my answer. My answer restricted it to this building and I assumed that you were referring to this property. If you were not, would you care to repeat your question again?

[R. p. 1574] Q. (By Mr. Fischgrund) Well, going beyond Engineers' Exhibit 93, it is correct, is it not, Mr. Leonard, that there are no properties jointly used by Baton Rouge Bus Company, Inc., and Gulf States Utilities Company, other than the general office building? A. That is correct.

Q. You would say, would you not, that the bus system is efficiently operated? A. I certainly would.

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. Would you also state that it is operated as a self-contained unit separate from the electric operations of Gulf States Utilities Company? A. Except for the point just mentioned, namely, the joint offices and joint personnel in the central office building.

Q. Would you say that they are different operating problems in the operation of the bus system than in the electric system? A. A great many of them are different. Many of them, though, are common. One is an understanding of the proper way to render public service to many people, and I am very proud to state that, in my opinion, the group that I represent and its forebears, the Engineers Public Service Company and Stone and Webster, know more about operating public utilities than any other organization in the country. I think the [R. p. 1575] type of service we render in the Baton Rouge Bus Company, Inc., is much higher than that rendered by independent bus systems, which information is my own and my personal opinion which I have gained from riding in many buses in many cities.

Q. So far as operating problems of the bus system are concerned, what specific operating problems does the bus system have that exist in the operation of an electric utility system? A. That is the same as other utilities, that is, common to—is that your question?

Q. Yes, what operating problems are there in the operation or supervision of a bus system that are identically the same or similar to the operation of an electric utility system? A. I think there are quite a few that are common. One is with reference to the employment of personnel, maintaining a satisfied personnel would be a problem that is quite similar. A great many accounting problems would be simliar, accounting and tax matters, construction accounting, and matters of that sort. The attitude of the employees in meeting the general public is another. Another

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

point that we emphasize in both the electric company, namely, the Gulf States Utilities Company, and the Baton Rouge Bus Company, as was pointed out in the testimony, is to keep our equipment in as near a spotless condition as we can, and we find that the public acceptance of our commodities has improved vastly [R. p. 1576] by taking the very best possible care of our equipment and buying the best equipment when we have occasion to buy equipment.

There seem to me to be quite a few matters of that sort that are common to both electric systems and bus systems. Another point that is quite similar is the maintenance of automotive equipment. We have a fleet of buses, one automobile and a truck in the bus company, and we have a large fleet of automotive equipment in the Gulf States Utilities Company, consisting of automobiles, trucks of all sizes, and we also have a bus which is used for hauling employees from the Louisiana station, for hauling employees of the Louisiana station from the station to town. The maintenance of this automotive equipment involves problems that are quite similar to both companies.

Q. Would there be any greater relationship in the operation of the bus system and the electric system than in the operation of any industrial system and the electric system, so far as common operating problems are concerned? A. I would think so because, ordinarily, the operation of an industrial concern, if you are speaking of a manufacturing concern, does not involve as much contact with the public as does the case in question in which public relations play a most important part, in both the electric utility and the bus utility.

[R. p. 1577] Q. Then the only thing in the operation of the bus system and the electric system that is similar is in the public relations, the fact that they both deal with the public? A. No, that is not what I said.

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. Is that not true? A. I think not. I mentioned another group of items that are common to both and I think that the matter of dealing with the public is very probably the most important one, and I think the maintenance of equipment, the training of personnel, joint accounting matters, tax matters, that are common to both companies, it seems to me there are a very large number of problems that are very common to both companies.

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[R. p. 1579] A. Do I know what?

Q. Do you know why Baton Rouge Electric Company sought to sell its transportation business in 1935? A. Yes, because it was not a profitable business.

Q. And also because the company was really in the electric and gas utility business and the bus business was not so related to that business that they felt they desired to stay in the bus business? A. The information I have was that that was not a consideration. They proposed to sell it solely because it was not an asset but it was a liability at that time.

Q. Is the bus company operating at a profit now? A. It is.

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[R. p. 1581] Q. Coming back to the question when you or Mr. Nelson wrote the letter to Mr. Fitzgerald in 1936, shown in Engineers' Exhibit No. 96, the operation of the transportation system was similar to that as it exists today, aside from the fact that the company was not making money then and it is today, is that correct? A. The transportation system in 1936 was materially different than it is today.

I probably could explain that better if I referred to the map and showed you the routes that have been added since that time, if that would be helpful to you.

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H. C. Leonard—Cross Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

I am referring to Exhibit 92. On this exhibit is shown in orange three important routes that have been added since the first of the year.

Mr. Tucker: What year.

[R. p. 1582] The Witness: The first of this year, 1941. These new routes added since the first of this year, 1941, are approximately two thirds of the routes existing before the first of January, 1941, so that that is one material change. Another change was made in the East Boulevard-North Boulevard line. That line has been increased three times since 1936. The North Baton Rouge Park Boulevard line has also been extended twice. It now extends by a rather long loop south from Government Street to City Park, so it is very definitely a true statement to say that, since 1936, the bus situation has changed very materially. As to the matter of routes that I have just mentioned, and then by referring back to this morning's testimony, it is easy to say that the number of busses purchased in 1936 is a very material part of the complete list of bus equipment.

As I mentioned, to take care of the new business in Baton Rouge, we have four large busses now on order. I did not mention the capacity of the busses, but they are similar to the largest busses we have, 28-passenger.

Q. (By Mr. Fischgrund) In other words, Mr. Leonard, the bus system has expanded since 1936? A. That is correct.

Q. And in 1936 the company was not making money and that was the reason the company desired to sell it? [R. p. 1583] A. That is correct.

Q. And today it is making money? A. That is correct.

Q. But the inherent nature of the property, aside from the nature of expansion, is the same, that is, it is still a bus system? A. It is still a bus system, materially larger than it was in 1936.

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

[R. p. 1584] Q. (By Mr. Fischgrund) Mr. Leonard, was the sole reason that the City Council was reluctant to agree to the transfer of the franchise in 1936 that they did not feel that anyone else could operate the transportation system as efficiently as the management that was then operating it? [R. p. 1585] A. I think so.

Q. Is it your opinion that there would be no one else in the country that could operate it as efficiently as—I believe what you testified on direct examination to be—Stone and Webster? A. Modesty would forbid me to make that statement. I would rather have the statement in the file as to that. I am very sincere when I say I think our operations of that company result in much better satisfaction to the public than would be obtained under the average separate bus-operating system.

Q. But you would not say that no one else in the country could operate it as well as you could operate it? A. Modesty would prevent me from making such a statement as that.

Q. Then your answer, with full appreciation of your modesty, is, No, is that correct? A. That is a different question again. I think that I have previously stated that Engineers Public Service Companies are operated better than any companies that I know of.

Q. And you would say that that is true of all of the companies that had been under the supervision of Stone and Webster, that is not peculiar to this particular operation? A. May I answer that question by stating this, that [R. p. 1586] Engineers Public Service Company and its predecessor, Stone and Webster Companies, have been in Baton Rouge since 1909, a period of some 30 years. I think that the public acceptance of the service that we render is most excellent. I think the people have confidence in us and I think that any effort to break up that situation would

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be unfortunate and I do not believe that the public would be as well served as at present.

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[R. p. 1601] L. V. SMITH

a witness called on behalf of the Applicant, being first duly sworn, was examined and testified as follows:

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Direct Examination

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Q. (By Mr. Tucker) Please state your name, business address, and position held with Baton Rouge Bus Company, Inc., and Gulf States Utilities Company. A. My name is L. Vernis Smith. My business address is 340 Florida Street, Baton Rouge, Louisiana. I am secretary, treasurer, and director of the Baton Rouge Bus Company, Inc., and assistant secretary and assistant treasurer of Gulf [R. p. 1602] States Utilities Company.

Q. Please state your experience and qualifications for the position which you hold. A. My experience dates back to April, 1913, my first connection with a utility being with Paducah Light & Power Company and Paducah Traction Company at Paducah, Kentucky, in the accounting department. From January 1, 1920, to June 1, 1920, I was employed in the treasurer's office of Stone and Webster in Boston, Massachusetts, doing statistical and accounting work for public utility companies. From June, 1920, to June, 1922, I was assistant treasurer of the Keokuk Electric Company in Keokuk, Iowa, in charge of the accounting department which covered accounting for electric, gas, and transportation utilities. From June, 1922, to January, 1926, I was assistant treasurer for the Paducah Electric Company and Paducah Railway Company at Paducah, Ken-

L. V. Smith—Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

tucky, and had charge of the accounting department of those companies. From January, 1926, to August, 1926, I was assistant treasurer of the Houghton County Electric Light Company and treasurer of Houghton County Traction Company, being in charge of the accounting work of those two organizations. From August, 1926, to March, 1927, I was in the treasurer's office at Stone and Webster, Boston, Massachusetts, engaged in accounting and statistical work for various utility companies. From March, 1927, to February, 1928, I was assistant treasurer of [R. p. 1603] Gulf States Utilities Company and treasurer of the Louisiana Electric Company, the latter company being engaged in the transportation business, in charge of accounting work for those companies. From February, 1928, to November, 1933, I was assistant treasurer of the Baton Rouge Electric Company, Baton Rouge, Louisiana, this company operating a transportation system. From November, 1933, to January, 1935, I was treasurer of the Western Public Service Company, Scotts Bluff, Nebraska, in charge of the accounting department. From January, 1935, to August, 1938, I was treasurer of the Baton Rouge Electric Company, which company operated a transportation department, and secretary-treasurer of the Louisiana Steam Generating Corporation. Since August, 1938, I have been secretary-treasurer of the Baton Rouge Bus Company, Inc.; and since August 24, 1938, assistant treasurer of the Gulf States Utilities Company located in Baton Rouge, Louisiana.

* * * * *

(By Mr. Tucker)

[R. p. 1604] Q. Mr. Leonard, in his testimony, stated that Gulf States Utilities Company and Baton Rouge Bus Company, Inc. had certain joint employees. Will you please state how these employees are paid? A. These employees

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

each receive a check semi-monthly from Gulf States Utilities Company and a check from Baton [R. p. 1605] Rouge Bus Company, Inc. for the services performed by them for the benefit of each company.

Q. How many of these joint employees are there, and into what general classification do they fall? A. There are a total of 27 joint employees, 17 of whom are employed in the general accounting department and 10 are executive and supervisory employees of Gulf States Utilities Company doing work for both Gulf States Utilities Company and Baton Rouge Bus Company, Inc.

Q. When Baton Rouge Bus Company, Inc. was organized in August, 1938, what did you do with respect to the matter of sharing of personnel and facilities between Gulf States Utilities Company and Baton Rouge Bus Company, Inc.? A. Prior to the organization of Baton Rouge Bus Company, Inc. and its acquisition of the transportation properties of Baton Rouge Electric Company on August 1, 1938, the transportation business had been carried on as a department of the Baton Rouge Electric Company. Upon the organization of the new company, we had problems with respect to the establishment of the basis on which to charge the bus company for its use of employees and facilities.

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[R. p. 1609] Q. (By Mr. Tucker) How much was the payroll of Baton Rouge Bus Company, Inc. for joint employees during the years of 1939 and 1940, respectively? A. Approximately $775 per month during the years 1939 and 1940.

Q. If the bus company were no longer able to use these joint employees and facilites, would the Gulf States Utilities Company be able to dispense with the services of any

[R. p. 1610] of these joint employees or make any other saving or get along with less office space and facilities? A. No. Mr. Leonard and I have made a careful study of the question of whether if the transportation business were discontinued, Gulf States Utilities Company could get along with fewer employees or any less office space. It is our considered judgment that we could not. This conclusion was reached in spite of the fact that 17 employees in the general accounting department and some 10 additional employees of the executive and supervisory staff do work for both the Gulf States Utilities Company and the Baton Rouge Bus Company, Inc. The reason for this is that the work done by the joint employees is departmentalized; for instance, we have in the payroll department four employees who are included in the general accounting group of 17 employees shown on Exhibit 97. These four employees make out payroll checks for approximately 700 employees of the Gulf States Utilities Company in Louisiana, and only 66 for the Baton Rouge Bus Company, Inc. If the bus company payroll were eliminated it would still be necessary to employ four clerks to handle the payroll of the Gulf States Utilities Company. Similarly, we have checked into the work done by all of the other joint employees, and for similar reasons found that if the transportation business were discontinued, Gulf States Utilities Company would not be able to carry on its work with any fewer employees. Since Gulf [R. p. 1611] States could not get along with fewer employees it would need the same amount of office space and would have to pay the full salaries of whose who are now joint employees. Salaries now borne by the Bus Company, aggregating $975 per month plus the $75 per month now received for rent of office space from the bus company, would cost Gulf States Utilities Company an additional amount of about $1,050 per month, or $12,600 per year.

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L. V. Smith—Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. Do you have with you in exhibit form a tabulation setting forth the results of a study made by you and Mr. Leonard together as to what would be the total cost per month to the bus company to replace those who are now joint employees and whom you have testified would have to be retained by Gulf States Utilities Company, if Baton Rouge Bus Company, Inc. were sold and joint operation discontinued? A. Yes.

Mr. Tucker: I would like this tabulation marked as Engineers' Exhibit 99 for identification.

The Examiner: Let it be so marked.

(The document was marked for identification Engineers' Exhibit 99.)

Q. (By Mr. Tucker) Will you describe briefly what this tabulation shows? A. This tabulation shows that the executives and other personnel necessary to replace the present joint employees if [R. p. 1612] the bus company were operated as a separate organization and without the benefit of joint employees would aggregate $1,575 per month, or a total of $18,900 per year. Since, as I have said, the bus company is presently paying a total of $1,050 per month for rent and salaries of its present joint employees, the additional cost to the bus company would amount to $525 per month or a total of $6,300 per year.

Mr. Tucker: I now offer in evidence the tabulation which has been marked Engineers' Exhibit 99 for identification.

The Examiner: Very well, it is admitted in evidence under that exhibit number.

(Engineers' Exhibit 99 was received in evidence.)

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

L. V. SMITH

Re-direct Examination

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(By Mr. Tucker)

[R. p. 1646] Q. Now, you were asked yesterday, as I recall, what the total amount of joint salaries was, and my recollection is that you said you did not remember definitely but you thought it was around $10,000, is that right? A. Yes, I said around $10,000.

Q. Now, as a matter of fact, the total of the joint pay roll, using the month of April as a basis, as shown by Commission's Exhibit No. 56, is how much? A. $6,337.33.

Q. Well, when you get the exact information, the $10,000 is wrong and $6,337.33 is the correct figure? A. That is correct.

[R. p. 1647] Q. Now, of that $6,337.33 shown on that exhibit, how is that divided between payments by Baton Rouge Bus Company, Inc., and Gulf States Utilities Company? A. $974.33 is Baton Rouge Bus Company, and $5,363 is Gulf States Utilities Company.

Q. And the percentage is about what? A. Approximately 15 percent.

Q. For the Bus? A. For the Bus.

Q. And 85 percent for Gulf States Utilities Company? A. That is right.

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[R. p. 1657] Q. Well, with respect to "Executive and Supervisors," all of the people in that list of those ten employees under that heading on Exhibit 56, all of those people on that list have specific duties, do they not, so far as the electric department is concerned? A. So far as the Gulf States Utilities Company is concerned, yes.

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TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

Q. Mr. Leonard, for example, is president. Why don't you go right down that list and tell us who they are and, in a general way, their duties, so far as the electric department of Gulf States Utilities Company is concerned, or Gulf States Utilities Company itself? [R. p. 1658] A. Forgetting Baton Rouge Bus Company?

Q. Yes. A. H. C. Leonard is executive vice-president in charge of the operations of Gulf States Utilities Company in the State of Louisiana.

Mr. W. R. Bell is general superintendent of Gulf States Utilities Company. His duties, of course, have to do not only with the electric, but production, electric transmission, distribution and production and the gas department.

Q. He also has general supervision, does he, of the bus operation? A. He is vice-president of the bus company.

Q. Does he have general supervision of bus operations or do any of the people report to him or not? A. Yes, they do.

R. A. Delaroderie is claim agent for Gulf States Utilities Company. He is also vice-president and general manager and supervisor of claims for the Baton Rouge Bus Company.

Q. L. V. Smith, that is yourself? A. That is I.

Q. And you have substantial duties for the Gulf States Utilities Company, I take it? A. I am in charge of the accounting work of Gulf States Utilities Company, which is taking care of all [R. p. 1659] accounting, tax and insurance matters for the State of Louisiana.

Q. All right; now go to the next one. A. T. P. Comerford is assistant treasurer and is—well, I will put it this way—my right-hand man.

Q. Mr. Landers? A. R. W. Landers is chief clerk of Gulf States Utilities Company and also chief clerk of Baton Rouge Bus Company and his duties are the supervision of the general accounting work.

L. V. Smith—Re-Direct Examination (Cont.)

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

H. P. Lindee is assistant chief clerk of each company and he is the chief assistant of Mr. Landers.

D. A. Brown takes care of insurance matters for both Gulf States and Baton Rouge Bus Company.

E. A. Ackoury is in charge of all tax matters in the State of Louisiana for both the Bus Company and Gulf States Company.

J. W. Hatcher is claim investigator for each of these companies. He reports directly to Mr. R. A. Delaroderie.

Q. And in giving consideration to the matter, you carefully considered whether, if the Bus Company were separated, that executive and supervisory department could get along with any less men, and concluded, I take it, that they could not? A. The Gulf States Utilities Company would need all of the supervisory and executive employees.

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L. V. SMITH,

Further Re-Direct Examination

[R. p. 1803] Q. (By Mr. Tucker) Now, Mr. Smith, does this Exhibit A, which has been incorporated into this record by reference from the files of the Commission, File No. 46-92-1, give the net operating revenue of the total transportation department of Gulf States Utilities Company segregated from the other revenues and expenses of the company for the year ended December 31, 1935—wait just a minute—where I said Gulf Utilities Company, I meant Baton Rouge Electric Company. Now, will you answer that question with that explanation? A. Yes, it does.

Q. Will you tell us what the total net operating revenues [R. p. 1804] of the Transportation Department were as

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shown by this Exhibit for the year ended December 31, 1935? A. $7,851.42.

Q. And that amount from the Exhibit appears to be after operating expenses, maintenance and taxes, does it not? A. That is correct.

Q. And before depreciation? A. And before depreciation.

Q. And also before interest and amortization? A. Yes.

Q. And is the year 1935, December 1935, the time that an offer of $40,000 was made to sell the transportation business by Baton Rouge Electric Company as has already been testified to in these proceedings? A. That was the year the offer was made.

Q. Isn't it a fact the offer was made in December 1935? A. It was made in the latter part of December, 1935.

Q. Now, tell us also whether or not similar information with respect to the year ended December 31, 1936, is given on that Exhibit? A. It is given.

Q. And for the year 1936, what does the Exhibit show to have been the net operating revenues? A. $43,552.34.

Q. In other words, something like six times greater [R. p. 1805] than they were for the year ending December 31, 1935? A. Approximately six times.

Q. And that in this case also is after operating expenses, maintenance and taxes, but before depreciation and interest and amortization, and so forth? A. That is correct.

Q. Does Exhibit A also show the same information for the year ended December 31, 1937? A. It does.

Q. And what was the net revenue for that year? A. $54,452.79.

Q. And that is an increase of something like $10,000 over the year ended December 31, 1936, in net operating revenues? A. That is correct.

Q. And in this case also, that net operating revenue that you have given is after operating expenses, maintenance

TRANSPORTATION (BATON ROUGE BUS COMPANY) (Cont'd)

and taxes but before interest, amortization and so forth and before depreciation? A. That is correct.

Q. Now, does this Exhibit A bear a footnote? A. Yes, sir.

Q. In fact, it bears several footnotes, does it not? A. It bears five footnotes.

Q. Would you read into the record the one at the bottom [R. p. 1806] which begins "the Transportation Department" and so forth? A. "The Transportation Department is charged, wherever possible, with operating expenses directly applicable thereto. Certain expenditures by the company, such as the salary and expenses of employees who act in a supervisory capacity and miscellaneous general expenses applicable to the company as a unit, are allocated to the several departments. The percentages charged to the Transportation Department for 1935, 1936 and 1937, have been 9 percent, 9 percent and 10 percent, respectively, and are applied monthly, based on the percentage of the gross revenues of the Transportation Department to the total yearly gross revenues of the company."

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GULF STATES WATER

H. C. LEONARD

Further Direct Examination

[R. p. 1692] Q. (By Mr. Tucker) Turning your attention to the business of public water supply operated by the Company, will you state how the company happens to carry on such a business? A. In the expansion of the electric business by acquisition of properties it was necessary to acquire water properties since equipment and facilities for electric

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GULF STATES WATER (Cont'd)

and water operations were located in the same building or adjacent thereto on the same property.

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[R. p. 1693] Q. Please name the communities where the company is engaged in the water business and the general characteristics of these communities. A. The company owns and operates a water business in Calvert, Franklin, Navasota and Orange in Texas, and Denham Springs and Lake Charles in Louisiana, and leases and operates a water system in Carencro, Louisiana. The population served in these communities is approximately 44,000 and the principal water systems are located in Lake Charles, Louisiana, and Orange and Navasota, Texas.

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[R. p. 1694] Q. (By Mr. Tucker) Will you give briefly the date of acquisition of these water properties and the circumstances under which they were acquired. A. The water properties in Calvert, Franklin and Navasota were acquired with the electric and ice properties of Western Public Service Company in March, 1929; the water properties at Orange was acquired with the electric and ice properties of the Orange Ice, Light & Water Company on September 1, 1925; the water property at Lake Charles was acquired with the electric, gas and ice properties of the Louisiana Electric [R. p. 1695] Company, Inc. in June, 1926; the lease covering the operation of the water property owned by the village of Carencro, Louisiana, was acquired from J. Frank Ard with the electric property in March, 1926; and the Denham Springs, Louisiana, water property was acquired with electric, gas and ice properties from the Baton Rouge Electric Company in August, 1938.

Q. Will you give us information as to how the water properties came to be associated with the operation of the

GULF STATES WATER (Cont'd)

predecessor companies? A. According to records available the water property in Calvert, Texas, was operated by the Calvert Water, Ice and Electric Light Company before the beginning of the century until the time it was acquired by Western Public Service Company in July 1923.

The water property in the City of Franklin and the electric plant were originally acquired by Western Public Service Company, a predecessor company, from the City of Franklin in 1923. The City of Franklin made a survey of the condition of the water and electric property owned by it and found it in such a bad state of repair that an expenditure of $10,000 would have been necessary at that time to rehabilitate the property. The City was unwilling to further extend the public credit for the purpose of raising money to make these repairs and rehabilitate the property and accepted the offer of Western Public Service Company, to acquire the [R. p. 1696] electric and water properties of the city. The terms of acquisition were on the basis that the Western Public Service Company would rehabilitate the property and extend a transmission line from Calvert to Franklin, Texas, and after acquisition would furnish a satisfactory electric and water service to the people of Franklin. The ordinance covering this transaction recited that the encumberance on the property at that time was approximately $15,000, represented by outstanding bonds of the City of Franklin on the water and electric property, and that the City would bind itself to pay off these encumberances and meet the obligations of said bonds as they matured in order to deliver to the Western Public Service Company good title to the electric and water plant and other property transferred to Western Public Service Company.

The City of Navasota originally owned the water system in that city and in 1913 it transferred its water property to Randall-Lovegrove-Wyman, a partnership, which later

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GULF STATES WATER (Cont'd)

in 1915 transferred its rights and franchises covering the conduct of a water business in the City of Navasota to the Navasota Ice, Light, Water and Power Company. The business and property of the Navasota, Ice, Light, Water and Power Company were acquired in 1917 by the Western Public Service Company and later by Gulf States Utilities Company in 1929. In the original agreement it was stipulated that the City would retain its interest in and to the water property existing in [R. p. 1697] 1913, and in 1937 prior to the expiration of the water franchise the company approached the city as to the acquisition of the water property there. The city was unwilling to acquire and take over the responsibility of conducting a water business and in order that the company could secure good title to all of the water property in the city an amount of $12,500 was paid and such amount represented the outstanding bonds against the water property of the city as of that date. After making the payment and obtaining title to all of the water property the city gave the company a 20-year water franchise which expires in August 1957.

The city of Orange originally operated its water system and in 1907 the city transferred the operations of the water system to the Orange Ice, Light and Water Company retaining title, however, to the water property which it had erected up to that time. The Orange Ice, Light and Water Company conducted the water business from the date of transfer to August 1925, and as a consideration for the use of the city's property it furnished free of cost a number of fire hydrants. During this period the Orange Ice, Light and Water Company made substantial improvements and extensions to the water system in Orange, Texas. In August 1925, the Orange Ice, Light and Water Company was negotiating for the sale of its properties to the Gulf States Utilities Company but since it did not have good title to all of the water property in the city it was necessary for

that [R. p. 1698] company to purchase from the city, at an approximate cost of $25,000, the city's interest in and to any part of the water property in Orange, Texas. In order to acquire the electric property in the city of Orange, it was necessary to acquire the water and ice business of the Orange Ice, Light and Water Company inasmuch as most of the pumping facilities and ice making equipment were located in the same building with that of the electric plant which is the situation at present.

In Lake Charles the water system was owned by the Lake Charles Railway Light & Water Works Company. At the time the predecessor company to Gulf States Utilities Company acquired the electric, water, ice and gas properties in Lake Charles, one of the requirements in securing a franchise was the stipulation that the water system would be rehabilitated.

The water property in the village of Carencro owned by the village is leased to the company. This agreement stipulates that the company shall operate and maintain the machinery, equipment and fire hydrants, and in connection with the maintenance of the water mains the company shall furnish the labor and the village the materials required in connection therewith. It also provides that the company shall furnish free all the water that the village may require for sprinkling streets, for protection of property against fire, and for municipal buildings and other municipal purposes, including the schools, both public and private. Also it is provided with respect to the new [R. p. 1699] extensions that the extensions shall be made by the company at the expense of the village; that if the company desires to meter the water used that meters shall be installed at the company's expense. The agreement also provides that the company shall furnish as a consideration of the lease agreement one 100 watt lamp from dark to 11:00 p. m. for each four water customers served in the

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H. C. Leonard—Direct Examination (Cont.)

GULF STATES WATER (Cont'd)

village of Carencro and that the company will operate and maintain during the entire term of the lease agreement an efficient and satisfactory electric plant in order to furnish electric current to the inhabitants of that village.

The water property at Denham Springs, Louisiana was owned and operated by Xaxier A. Kramer and the present water system was installed shortly before the properties of Xavier A. Kramer were acquired by Baton Rouge Electric Company in 1929. The properties of the latter company were acquired by the company in August 1938.

From the foregoing, it will be seen that four of the seven water systems operated at present were previously operated by municipalities who desired the water systems to be operated by a utility in order to secure a better water service than they were able to furnish. Also, the city of Lake Charles in granting franchise rights in connection with the electric, water and gas businesses in that community required that Gulf States Utilities Company expend a large sum of money, that is, approximately $285,000, in order to provide an adequate water system [R. p. 1700] there.

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[R. p. 1700] Q. Are these properties operated under franchises? A. Yes. The water system in Calvert, Texas, is conducted under a franchise granted by that municipality which expires in January 1962; the water business in Franklin is conducted under [R. p. 1701] a franchise from the city expiring in June 1973; the water business in Navasota is conducted under a franchise granted by the city, expiring in August 1957; the water business in Orange is operated under a franchise of the city expiring in September 1947. The water business in Carencro, Louisiana is operated under a franchise and lease agreement with the village of Carencro, both expiring in March 1950. The

GULF STATES WATER (Cont'd)

water franchise in Carencro obligates the company to maintain its electric service in that village. Operations of the water system in Denham Springs are conducted under a franchise of that town expiring in 1953 and the water system in Lake Charles, Louisiana is conducted under a franchise granted by the municipality which expires in June 1949.

Q. Will you describe briefly the plant facilities used in connection with the water business? A. The water plant facilities at Carencro, Louisiana, operated under a lease agreement with the village of Carencro, Louisiana, consist of one deep well which is pumpel by an air-lift. Electric pumping capacity of 432,000 gallons per day supplies the water distribution system to which is connected a 50,000 gallon standpipe.

The plant facilities at Calvert, Texas include three deep wells for the primary water supply. One of these wells is pumped by a deep well pump and the other two are pumped by air-lift. Ground reservoir facilities consist of a concrete basin [R. p. 1702] with a capacity of 25,000 gallons and pressure storage facilities consist of a 45,000 gallon standpipe. The total pumping capacity at this plant is 3,600,000 gallons per day, which total includes electric, steam, and gasoline engine-driven pumps.

The Denham Springs, Louisiana facilities consist of two flowing deep wells which discharge into a surge tank of approximately 5,000 gallons capacity. Water is pumped to the mains by two 209,000 gallons per day electric-driven pumps. The facilities at Franklin, Texas include one deep well which is pumped with an air-lift. The water from this well flows through a 244,000 gallon per day treating and filtration system into a 75,000 gallon concrete ground reservoir. The pumping capacity of 576,000 gallons per day supplies the water system to which is connected a 42,500 gallon elevated storage tank.

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GULF STATES WATER (Cont'd)

The plant facilities at Lake Charles, Louisiana, largest water property of the company, consist of six deep wells, four of which are pumped by deep well pumps and two by air-lift equipment. The water from these wells goes through a 3,000,000 gallon per day treating and filtration system into a concrete ground reservoir of 1,000,000 gallons capacity. The total capacity of the pumping equipment supplying the city mains is 11,640,000 gallons per day and includes electric and gasoline engine-driven pumps.

The plant facilities at Navesota, Texas include four [R. p. 1703] deep wells which are pumped with air-lift equipment into a concrete settling basin and reservoir of 250,000 gallons capacity. The total pumping capacity is 1,728,000 gallons per day.

The plant facilities at Orange, Texas include four deep wells, three of which are pumped with deep well pumps and one is normally pumped with a surface centrifugal pump. One of the deep well pump units is located about one mile from the main pumping plant and pumps into a 60,000 gallon concrete ground reservoir. The other wells at the main pumping plant feed into a 75,000 gallon concrete ground reservoir. The pumping equipment for supplying services to the distribution mains has a capacity of 5,328,000 gallons per day including both steam and electric-driven pumps. A 45,000 gallon standpipe is connected to the mains. At the present time a 1,000 gallon per minute well is being drilled and a 1,000 gallon per minute service pump is being installed together with extensive distribution facilities to provide for increased demands in connection with the National Defense Program, consisting of large shipbuilding plants with government contracts exceeding $100,000,000. In addition, there are federally financed housing developments comprising about 900 family units.

The total pumping capacity of the plants I have just described was as of December 31, 1930, 23,513,000 gallons

GULF STATES WATER (Cont'd)

daily. [R. p. 1704] I should, perhaps, also mention that at Conroe, Texas we own the wells and supply power for the operation of the pumps which are owned by the city. Our charges to the city for this service are based on the quantity of wated pumped.

Q. Will you describe briefly the distribution facilities of the various water systems of the company. A. The distribution facilities of the water department consist chiefly of mains, service connections, meters and fire hydrants. The miles of mains of various sizes owned and operated by the company include approximately seven miles in Calvert, Texas; two miles in Denham Springs, Louisiana; seven miles in Franklin, Texas; 57 miles in Lake Charles, Louisiana; 14 miles in Navasota, Texas; and 32 miles in Orange, Texas; a total of 119 miles. The miles of main owned and leased to the company by the village of Carencro, Louisiana are not included in the figure of 119 miles.

Q. Are the water supply facilities of the company adequate reasonably to supply requirements of the communities served? A. Yes. In each community the capacity available, including pumps, reservoirs and mains, is more than adequate to supply the normal requirements and there is additional capacity for fire protection purposes.

Q. Please describe how these water properties are operated. A. The operations of the water properties are under the [R. p. 1705] supervision of the production department which is responsible for all electric, water and ice production facilities of the company, and routine operations are the direct responsibility of the personnel located in division offices. Where production facilities are maintained for the electric, ice and water departments, namely, at Calvert, Navasota, and Orange in Texas, the plant personnel performs duties for all three of these operations. Servise men and other employees of the electric department, where pumping plants are located without production

GULF STATES WATER (Cont'd)

facilities for the electric and ice departments, perform all duties incident to the operation of the water systems in these communities, namely, Franklin, Texas, and Carencro and Denham Springs, Louisiana. At Lake Charles, Louisiana the water plant is operated by employees devoting most of their time to that work.

Q. To what extent is the accounting and other work in connection with the water business handled by the organization which does similar work for other departments and what can you say as to joint use of facilities generally? A. Accounting work in each community in connection with the water business is handled by the same organization which performs duties in connection with other departments. This same procedure is followed in connection with claim and safety work, and applies also to the supervisory and general organization.

For purposes of clarification I will state the towns where [R. p. 1706] water is served and name the other services rendered in those communities. In Calvert and Navasota, Texas we render electric, ice and water services. In Franklin, Texas we render electric and water services. In Orange, Texas we render electric, ice and water services and also sell a small amount of steam to a laundry for which we were paid in 1940 approximately $1,000. In Denham Springs, Lake Charles and Carencro, Louisiana we render electric and water services. In the communities of Calvert, Navasota and Orange, Texas the principal plant structure of the company in each town is used jointly by the electric, water and ice departments.

* * * * *

[R. p. 1707] Q. (By Mr. Tucker) In connection with the operation of the water supply, how does the company insure the delivery of palatable and pure water to its

customers? A. In the operation of all of the water systems the company takes measures to safeguard the health of the communities served. Modern methods of treating and sterilizing water are used where they are necessary. The systems are subjected to periodic inspection by the State Health Department of Texas or Louisiana, supplemented by those of the local health authorities. Water samples are obtained each month from the plants and various points on the distribution systems and tested for bacteria [R. p. 1708] contamination. Such tests are made in our laboratories and samples are periodically checked by the State Health Departments. In addition, special analyses of the water from various systems are also made from time to time should there be any reason to suspect a change in the mineral content.

To meet certain state requirements employees analyzing and testing water in the State of Texas have qualified as licensed water plant operators. To obtain these licenses, the operators are required to pass a written examination conducted in the presence of a representative of the State Department of Health.

Further insuring the delivery of a palatable and pure water supply are the direct benefits which the small properties receive from the availability of trained technical men located in the larger plants of the company. The communities receive the benefits of the wide experience of these men in handling purification, corrosion, tuberculation, and piping deposit problems.

Q. As you stated that Lake Charles was the largest water system operated by the company, please furnish us some of the details in connection with the operation of that system. A. The Lake Charles water system was acquired by an associated company in 1924 and by the company as of June 30, 1926. Since then the population of that city has

GULF STATES WATER (Cont'd)

increased about 50 per cent. Our water system has been enlarged to a greater extent.

[R. p. 1709] Q. And I presume you are referring there to the system at Lake Charles, Louisiana? A. That is correct.

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[R. p. 1712] Q. Will you discuss this chart?* A. This chart shows two comparisons, one a comparison of the number of water customers as of 1925 and as of December 31, 1940; and the other the invested capital in 1925 and as of December 31, 1940.

[R. p. 1713] The first comparison, namely, the comparison of the number of water customers, shows that in 1925 we had less than 2,000 water customers in Lake Charles, whereas as of December 31, 1940 we had approximately 4,300 customers, more than double the number in 1925.

The second comparison, namely, the total capital invested, shows that in 1925 we had approximately $230,000 invested in Lake Charles water system, while as of December 31, 1940, the investment had risen to approximately $830,000, more than three times the amount in 1925.

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[R. p. 1713] Q. (By Mr. Tucker) What are the principal improvements which you have made to the water system in Lake Charles, Louisiana? A. At the time of our taking over of the water property the water supply was obtained from deep wells with, also, an emergency source of supply for fire purposes from the river nearby. From the standpoint of fire protection only, that might have been satisfactory, but from a standpoint of health, it was not. Along these lines, it is may understanding that a good many

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*Engineers' Exhibit 103 (Document 273—R. p. 7110).

GULF STATES WATER (Cont'd)

years ago there was a serious fire in the city and it was [R. p. 1714] necessary to pump water from the river for fire fighting, following which some time was required to flush the contaminated water from the mains before the system could be put back in normal operation and consumers use the water for drinking purposes. Today the connection with the river has been removed.

One of the first things that our company did on acquiring the water system was to install a water treating and filtration plant; that is, we began by insuring a safe supply. Also, we started a program of greatly increasing the size and dependability of the mains; a program which is still continuing under careful planning. I might add that these plans not only are made by our own men, but at several different times during the past 15 years we have employed outside firms of engineers to furnish us an independent viewpoint and check our methods.

Q. You mention deep wells as your source of supply. Would you explain that further? A. Lake Charles is situated in the relatively flat coastal plain district of Louisiana which has, in that section, underlying strata of fresh water bearing sands. There are several of these at varying depths, the two more important sands to us being at the 500-foot and 700-foot levels below the surface. The water from these strata is both potable and pure; although it contains an appreciable amount of iron. Our wells produce water from each of these strata.

Q. Do you have with you in exhibit form a diagram [R. p. 1715] illustrating the progress of the water from the wells through to the distribution system? A. Yes.

Q. Was this diagram prepared under your supervision, and do you believe it to be accurate? A. Yes.

Mr. Tucker: I would like this diagram marked for identification as Engineers' Exhibit No. 104.

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GULF STATES WATER (Cont'd)

The Examiner: Very well, it will be so marked.

(The document was marked Engineers' Exhibit 104 for identification.)

Q. (By Mr. Tucker) Will you discuss this diagram please? A. Yes. We have two general types of wells in operation at this time; one group being of a semi-artesian class augmented by compressed air lift. Incidentally, the air compressors are equipped with both electric motor and gasoline engine power and can be driven by either. The water from this group of wells flows into a raw water storage basin. The untreated water from the raw water storage is then pumped into the aerator. The other type of wells, some distance away, pump direct into the aerator, without going through the raw water storage.

Q. What is the aerator? A. Its principle is that of a group of nozzles through which the water from the wells is forced in a spray and, in [R. p. 1716] doing so, tends primarily to remove the iron from the water. The water then flows through a flume into large settling basins of about 500,000 gallons capacity. The water treating chemicals are introduced at the aerator. The system used by us is the modern chlorine-ammonia treatment fed through and controlled by automatic equipment.

Q. What is the reason for this water treatment? A. The water supply basically is pure but this treatment assists in removal of some of the minerals present in the water and, also, is an extra safeguard as to its purity and potability. The amount of chemicals added is small and is regulated to contain a residual of only two-tenths parts per million of treated water. From the settling basin where some of the minute solids precipitate out of the water, it flows to the filtration plant. This plant consists of three units of very fine special grade of sand through which the water slowly filters. The normal capacity of this filter

GULF STATES WATER (Cont'd)

plant is 3,000,000 gallons per day and it can be stepped up to produce somewhat more than that. At present we furnish between one and one-half and two million gallons of water per day to the system so that it may be seen our filter plant is of adequate capacity, plus a reasonable reserve. In conjunction with our filter plant, we have a laboratory where hourly readings of quantity of water being delivered, treating tests, and other control records are kept. In making our hourly tests, we take samples from the raw water [R. p. 1717] supply, from the settling basins after treatment and from the treated water storage reservoir after it has gone through the filters. In addition to the records and tests kept and made by the operator under local supervision, samples are tested upon a regulator routine in a laboratory.

Incidentally, regular samples are drawn by us from various points around the city and are checked.

From the filters the water flows to a million gallon storage reservoir from which it is pumped into the distribution mains. Several pumps are available, driven by both gasoline engine and electric motors. This pumping capacity is several times larger than ordinary daily requirements. We have recently installed an additional pump to supply the treated water to the city mains which has further increased our reserve. Not only do we have a number of pumps with different types of prime movers; but, also, where feasible we have installed units of this equipment at separate locations on the water works property.

Mr. Tucker: I now offer the diagram marked Engineers' Exhibit No. 104 for identification into evidence.

The Examiner: It is admitted, under that number.

(Engineers' Exhibit 104 was received in evidence.)

Q. (By Mr. Tucker) Will you continue your description of this water [R. p. 1718] plant? A. It may be of interest

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GULF STATES WATER (Cont'd)

at this point to describe the type of well which has been found to be most satisfactory and dependable for water supply in this section. Recently we have completed a direct pump well in the 700-foot strata which produces over 1,500 gallons per minute or better than 2,000,000 gallons per day. A well drilled into the water sand, with a simple screen at the bottom, frequently will sand up or clog under heavy pumping and will fail, requiring costly cleaning or redrilling. In new wells this has been overcome during their construction by washing out the sand and filling the cavity with clean fine gravel.

Q. Do you have with you in exhibit form a diagram showing a typical cross-section of such a well? A. Yes.

Q. Was this diagram prepared under your supervision, and do you believe it to be accurate? A. Yes.

Mr. Lester: Do I understand that all of this evidence relates to Lake Charles?

Mr. Tucker: Yes, everything that we have been giving in the last 10 or 15 minutes or so is Lake Charles.

Mr. Lester: Thank you.

Mr. Tucker: I would like to have this marked as Engineers' Exhibit No. 105 for identification.

[R. p. 1719] The Examiner: All right, it will be so marked.

(The document was marked Engineers' Exhibit 105 for identification.)

Q. (By Mr. Tucker) Will you discuss this diagram please. A. The natural water bearing sand surrounds the gravel, which in turn is around the screen at the bottom of the well casing. The purpose of the gravel is to keep the sand from clogging the fine metal screen. It also tends to act as a cushion, aiding the water to flow smoothly, and preventing collapsing of the sand wall. The particular screen in this well of ours is

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GULF STATES WATER (Cont'd)

made of closely wrapped strips of Admiralty metal alloy, more costly, but also more durable than ordinary iron or steel. As readily can be imagined, replacement of a corroded or worn out screen after a few years at the bottom of a well would be a difficult and a costly job. Above the screen the well is cased with steel pipe up to the surface of the ground. As an added precaution against chance of surface or subsurface contamination, the outside of this casing all the way to the surface is surrounded by a heavy cement coating pumped in after the steel casing has been set. The top 80 or 100 feet of casing encloses the vertical centrifugal pump which is driven by a sealed vertical type electric motor mounted on the well head.

Although the water bearing sand is from 600 to 700 feet below the surface, the water rises in the casing to within less [R. p. 1720] than 100 feet from the surface.

Mr. Tucker: I now offer this diagram as Engineers' Exhibit No. 105.

The Examiner: It is admitted in evidence under that number.

(Engineers' Exhibit 105 was received in evidence.)

[R. p. 1721] Q. (By Mr. Tucker) Have improvements been made to the other water systems of the company? A. Yes. The company has improved its water system in each of the communities and with considerable paving work being undertaken in several of the municipalities the company has replaced small mains with those of larger sizes in order to provide for growth and to avoid excessive costs in the future when demands would necessitate the replacement of smaller mains with larger ones.

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GULF STATES WATER (Cont'd)

[R. p. 1722] Q. If you were forced to sell all your water businesses or a substantial part of them within any given two-year period, do you think you could do so without substantial sacrifices of values? A. No, I do not. In those cases where the production facilities, as I have already stated, are actually installed in and are a physical part of the buildings of the electric and/or ice plants, and in those cases where water facilities are located on lands of the company used for the electric and/or ice businesses, separation would as a practical matter be either impossible or would entail a very substantial loss in value. If an attempt were made to separate the water-pumping and production facilities, the machinery would in such cases have no more than its second-hand or scrap value, and also in such cases all the value which comes from an installed plant and a going concern would be lost, and I have no doubt that such values would be considerable.

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H. C. LEONARD

Cross Examination

By Mr. Fischgrund:

[R. p. 1731] Q. Do you know in general why the company has been making disposition or its water properties, as you indicated in your direct examination? A. Yes, I think I can explain the situation. The water business generally is a profitable business, but in the event a municipality wishes to take over the operation, and take over the operation of a water plant and purchase it from us, we are willing to consider negotiations along those lines if we can arrive at satisfactory terms.

It frequently happens that certain communities desire larger size mains and more adequate fire protection. In certain cases the city is willing to assume the cost of that and the tax burden placed on the general public, and in

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H. C. Leonard—Cross Examination (Cont.)

GULF STATES WATER (Cont'd)

those cases if the city or municipality or town wishes to purchase our property and enlarge its mains to provide for hydrants and [R. p. 1732] fire-fighting equipment and have the general taxpayers pay the loss, why we would be willing to consider a sale on that basis.

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[R. p. 1737] Q. Yes, I'd like to know exactly what you mean so far as the electric and water departments are concerned—by the principal plant structure of the company. A. The water production plant at Orange, Texas, is located on the same property with the electric power station and ice plant. In the principal structure are located the electric production equipment, the ice plant, and part of the water-pumping facilities.

[R. p. 1738] Q. You mean they are on the same parcel of real property? A. The sentence I just used described the facilities in the main building. In the yard outside the main building, located on the same piece of property, are the water wells, and, incidentally, a new well has just been completed on this same piece of property, so that summarizing, we have a piec of property that we call the production, and on this property are located all of the production facilities of the electric plant in Orange, the ice plant and all of the wells belonging to our water system except one which is located, as I recall it, about a mile from the production property,

The office building at Orange is located I would guess about a block or two away from the production property.

Q. In other words, if I may interrupt you before you leave the case of Orange, Texas, the wells of the water system are on the same parcel of real property that is a parcel of real prpoerty that is owned by the Gulf States Utilities Company? A. All of the wells except one that is located about a mile away.

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H. C. Leonard—Cross Examination (Cont.)

GULF STATES WATER (Cont'd)

Q. And the pumping equipment is in a building— A. (Interposing) Some of the pumping equipment is located in the same structure with the electric power station and other wells are located on the same piece of real property, but a short distance from the power station.

[R. p. 1739] Q. But in the case in which the pumping equipment is in the same building as the power station, it is in a separate part of the building, is it not? A. It is. As I recall it, most of the pumping equipment is in one end of the main building. It is in part of the power station building but it is in one end of it, that is correct.

Q. All right; now, in the case of Navasota, Texas. A. In Navasota, Texas, the division headquarters are located on what we refer to as the principal plant structure. The division offices are located there. The ice plant is located there, the water production facilities, and the distribution facilities. Practically all of the production and distribution and central office activities are carried on from this central piece of property.

Q. All right; and at Calvert, Texas. A. The principal plant structure at Calvert has on it several buildings, the largest one housing a steam boiler and steam generating equipment, which are used for stand-by purposes only, the ice plant, and some of the water-pumping facilities.

The wells are located in the yard. The stand-pipe is in the yard, and on the same piece of property is located the office building servicing the Calvert district.

Q. The pumping equipment is in a separate building from the building that has the steam generating equipment, is that not true? [R. p. 1740] A. Some of it is. As I recall it, some of the water-pumping equipment is also located in the principal structure.

Q. But for the most part the principal pumping equipment is in a separate building from that that houses the steam-generating equipment? A. There is a small brick

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GULF STATES WATER (Cont'd)

building located on that same piece of property that has some pumping equipment in it. My recollection is that most of it is housed in the building with the generating equipment. Certainly any steam-driven pumping equipment that is referred to here would be bound to be located in the same building.

Q. You are not absolutely certain how much is in one building and how much is in the other? A. Not absolutely, no.

Q. Is there any reason, Mr. Leonard, why the property, for example, at Orange that has the wells on it could not be separately owned by a separate company other than Gulf States Utilities Company and operated as such? A. I think it would most certainly detract from the value of our property to have pieces of property owned by somebody else than ourselves, and then have operators not working for use taking care of the machinery and equipment. It seems to me that it wouldn't be a practical scheme at all.

Q. My question was whether or not the property at—I believe I referred to Orange, Texas—that has certain water [R. p. 1741] wells on it, which is on a property that is contiguous to a property that has electric equipment on it, as to whether or not that property with water wells on it could not be separately owned? A. Not from a feasible standpoint. For instance, part of the wells are located between the main switching structure and the building housing the generating equipment, so that those wells are right in the center of the property. It would seem to me that it would be awfully ill-advised to attempt to sell a chunk right out of the middle of a piece of property and expect a group of employees to go there that are not under our control, and the same thing would apply to the pumping facilities in the principal building which is occupied by generating equipment.

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GULF STATES WATER (Cont'd)

[R. p. 1741] Q. (By Mr. Fischgrund) It is true, is it not, that there isn't any principal plant structure that is used by the electric and the water departments in Denham Springs, Lake Charles and Carencro? A. At Denham Springs, the water property is contiguous [R. p. 1742] to a small piece of property on which we have located our distribution transformers for supplying the Town of Denham Springs with electricity, but on the property devoted to the water system there are no electric facilities at all, and in respect to Carencro——

Mr. Tucker: (Interposing) Lake Charles?

Witness: Well, let me mention the Carencro first, because it is a smaller one.

(Continuing) The properties at Carencro are owned by the City, so that I think that statement answers itself; doesn't it?

Q. (By Mr. Fischgrund) In other words, they are entirely separate from any electric properties? A. I don't recall that we have any electric facilities there at all, except possibly a transformer for serving pumping equipment. And, then you asked about Lake Charles?

Q. Yes. A. The principal piece of property that the Gulf States Utilities Company owns in Lake Charles is a sizeable one, and on this piece of property are located the electric facilities serving that division, and also the water properties. The water properties are not grouped together in a single group. The filtration and the water purification plant is separate from the electric building, and two of our wells are located within a short distance of the water-treating and filtration plant. The [R. p. 1743] pumping facilities used for supplying water to the City under pressure are located in a building which, although separate from the electric structures, is within a few feet of one of our electric buildings.

GULF STATES WATER (Cont'd)

Further, other wells are located at a considerable distance from the water-treating plant and are located closer to electric facilities than they are to the filtration plant.

Q. Now, Mr. Leonard, I believe you testified that if attempts were made to separate the water-pumping and production facilities, the machinery would in such cases have no more than its second-hand or scrap value. Do you recall that? A. I do.

Q. Do you mean that if there was separation of the pumping facilities from the production facilities, or did you mean if a separation of the water-pumping and production facilities from the ownership by Gulf States Utilities Company, into a separate company? A. What I intended to say is that if we should attempt to separate the water-pumping and production facilities from the electric facilities and move them out of the electric structures——

Mr. Tucker: (Interposing) No matter what the reason was for doing it?

The Witness: If we had to move them away from the electric structures, my statement is that in this case the machinery would [R. p. 1744] have little more than second-hand or scrap value.

Q. (By Mr. Fischgrund) Why would that be true in the case of the water properties at Denham Springs, for example? A. At Denham Springs?

Q. Yes. A. I thought I conveyed the impression that on the particular water property at Denham Springs that it is separate from the electric property, although I did mention that it was contiguous thereto.

Q. Isn't that also true at Lake Charles? A. I wouldn't think so. It is true of the water-treating and filtration plant, but the principal pumping plant for supplying water under pressure to the city mains is located in the group of our electric activities, and I think that it would be most unfortunate if we were forced to separate that building from the balance of our electric properties.

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GULF STATES WATER (Cont'd)

Q. They are not in the same building that the electric properties are, are they? A. No, I am sure that I said it was immediately adjacent to one of our principal electric buildings. It can't be but just a few feet between the water-pumping building and the electric building which is used for all sorts of distribution purposes. The metering department, on the second floor, is used for divisional engineering. And continuing in a straight [R. p. 1745] line from the electric building I mentioned, past the water-pumping plant, you go through a space that we have been planning to use for some time for storage of our poles. We now have buildings of a temporary nature in that general area.

Q. Isn't it a fact, Mr. Leonard, that Gulf States Utilities Company could give a deed to property in the Lake Charles area that is now used for the water system which would be entirely separate from any property that is used for the electric system? A. I have been attempting to convey the picture as accurately as possible to you and state that the pumping facilities that I speak about are separate from the electric structures, but they are located adjacent to buildings where many of our operations are contained, and you would have to build a little private walk to the building and surround it by a fence. That would be like an island in a lake to do as you propose to do, and I think it would break up the property and create an unfortunate situation in a piece of property that we have been developing carefully over a long period of time. From time to time, we have made numerous changes in those electric structures down there. The building that is immediately adjacent to the pumping station was completely rehabilitated in the last two years, and since Lake Charles is a growing property and that is the logical location for our division headquarters, we need all of that property; and to [R. p. 1746] have a chunk cut out of the

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H. C. Leonard—Cross Examination (Cont.)

GULF STATES WATER (Cont'd)

middle, like I say, like an island in a lake, I say would be an unfortunate thing to have happen, I think. It's not quite as bad a situation as at Orange but it approaches it.

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[R. p. 1774] Q. As a matter of fact, Mr. Leonard, there is no inherent relationship, is there, between the business of pumping water and distributing it through a system of water pipes and the business of generating electricity and distributing it out over an electric transmission and distribution system? A. There is one point that I mentioned, the water production properties use water and the same wells can be used for both water and electrical purposes and, obviously, it isn't exactly in answer to the question that you asked, but many economies can be obtained through joint operation of the two facilities.

Q. In other words, the only relationship is that the electric system uses water and that the water system uses electricity. Is that correct? A. That would certainly be an important reason why the two are operated together.

Q. As a matter of fact, there is no other inherent [R. p. 1775] relationship, if that were an inherent relationship, in the operation of a water system, in the distribution of water over a system of water pipes and in the generation of electricity and the distribution of it over a system of transmission and distribution lines? A. That would be the only similarity, as far as generation is concerned, but as far as the distribution is concerned there are important places where the similarities overlap in a matter of meter reading, billing and collection and things of that sort.

In other words, the last-mentioned points are those factors which make it desirable to operate jointly water and electric properties in order that joint facilities and joint employees may be used.

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H. C. Leonard—Cross Examination (Cont.)

GULF STATES WATER (Cont'd)

Q. Well, it is a fact, is it not, Mr. Leonard, that the nature of the operating problems of pumping water and distributing it out over a system of water pipes and the operating problems of generating electricity, distributing it out over a system of transmission and distribution lines are entirely different? A. That is too broad a statement. What you say is true to a considerable extent, but as I pointed out, yesterday, the same men that analyzed water in our boilers also understand water for water-treating purposes and things of that sort enter into the picture.

[R. p. 1776] In all or most of our production properties we have wells, we understand about wells. These wells are required for electric purposes and wells similar to the wells for electric purposes are used in conjunction with a water distribution system.

In other words, in our electric operations we understand about the production of water and that information is available to people that operate our water system.

Q. In other words, the operating problems are different, although you have men who understand the operating problems, of both the operation of a water system and an electric system. Is that correct? A. Well, obviously, the man putting a water pipe in the street has different problems than the man putting a wire up on a pole. As I say, I think that there are similarities. I think that the production of water by wells, the testing of water, are all things that are joint that people know about and the matter of delivering water to the ultimate consumers involves problems of public relations, involves matters of billing, matters of meter reading and collections that we understand fairly well in the electric department.

It seems to me the two businesses dovetail together very nicely and have in their operation many problems which are common.

Q. Is it not true, Mr. Leonard, that the general [R. p. 1777] operating problems of a water system and

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H. C. Leonard—Cross Examination (Cont.)

GULF STATES WATER (Cont'd)

the pumping and distribution of the water out over a system of water mains and the generation of electricity in the distribution of the electricity involve separate and different operating problems although you may have persons in the employ of the company who understand the operating problems of both. Is that not true?

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[R. p. 1777] The Witness: I think that is too broad a statement. I think it should be limited to simply a statement that the operation of an electric system and a water system does involve some problems that are different, because on the other hand they do definitely involve many problems that are similar.

The problems in connection with the water business and electric business certainly do not end at the power station. The operating problems involve the customer's satisfaction, including all the ramifications leading up from the production [R. p. 1778] to the final use of the products and the payment of bills.

Q. (By Mr. Fischgrund) What problems, exactly, are similar? A. First of all, at the power station practically all electric power stations have water problems. In connection with the water used under the boiler, the power stations usually have wells and sometimes take water from the river. Those problems are identical, in many respects, with the problems of obtaining a supply of drinking water.

Then, the analysis of the water and the checking of the water and a purification of the water, all those things are simliar.

Now, turning again to the use of the product, both electricity and water are used by the general public. We serve the general public with electricity and we also serve them with water. My definite opinion is that the matter of rendering acceptable service to our electric customers, involving as they do problems of public relation, have many

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GULF STATES WATER (Cont'd)

points that are entirely similar. They involve the matters of meter reading, billing, collections, high bill complaints, employees on customers' premises and a good part of our efforts are spent in training employees so that we can render the type of service that is most acceptable to our customers.

When we handle water and electric problems, we handle [R. p. 1779] a great many of them by joint employees because it seems to me that many of the problems are joint and it seems most logical that joint employees handle joint problems. It seems to me that the two are very closely woven together in many respects.

It is true that the commodities are physically and entirely different and one is generally handled in pipe and the other in wires and I think that very definitely many of the production and operating problems involve points that are quite similar.

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(Appendix pages 667 and 684, inclusive, have been taken from the transcript of hearings on the application of Gulf States Utilities Company referred to in Appendix page 541. The numbers in brackets appearing in such excerpts indicate the paging of the certified transcript, but are not the same as the paging of the original reporters' transcript.)

GULF STATES GAS SYSTEM

[R. p. 5314] H. C. LEONARD

Direct Examination

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Q. (By Mr. Breckinridge) Is the gas that you distribute in Baton Rouge natural or manufactured? A. We distribute natural gas.

Q. Where do you obtain this gas? A. We purchase the gas through two connections with the Interstate Natural Gas Company, Inc., which is a non-affiliated pipe line company.

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GULF STATES GAS SYSTEM (Cont'd)

Q. What is the territory served by the gas department? A. Gulf States Utilities Company distribute this gas to residential, commercial and industrial consumers in the City of Baton Rouge, Louisiana, and its adjacent suburbs.

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(By Mr. Breckinridge)

[R. p. 5318] Q. Do you have a map of the distribution system? A. I do.

Q. Was this map prepared under your supervision? A. It was.

Q. Do you believe it to be accurate? A. I do.

Mr. Breckinridge: At this time, if the Examiner please, I would like to have the map referred to marked as applicant Gulf States Utilities Company Exhibit No. 2.

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(By Mr. Breckinridge)

[R. p. 5319] Q. What does this map show? A. This map shows the location of the gas lines, regulator stations and principal valves of Gulf States Utilities Company. It also shows the connecting lines of Interstate Natural Gas Company, Inc., and the transmission lines owned by United Gas Company. This map shows in addition the lines of Suburban Gas Company, a small non-affiliated system which serves an outlying suburb of Baton Rouge.

Q. Does the map show the territory served in 1925 as compared with that served now? A. Yes. The territory served in 1925 was the thickly populated down town district, both business and residential, and that district is cross-hatched on the map. The additions to the distribution system since 1925 into the more thinly populated suburban districts are shown on the map without the cross-hatching.

Q. Will you describe the territory served by the gas department? A. The gas distribution system serves a territory in Baton Rouge and its suburbs of about fifteen square

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miles [R. p. 5320] with a population of approximately 70,000, which includes numerous subdivisions outside the corporate limits of the city, the largest being Istrouma and University.

Q. Will you describe briefly the character of the community which the gas department serves? A. Baton Rouge and its suburbs have 38 industries of various kinds and various State institutions, such as the State Capitol, Louisiana State University, State Schools for the Deaf and for the Blind and Southern University, a state university for colored students. These industries and State institutions give employment to more than 10,000 persons. The industries referred to include oil refining, chemical works, a veneering plant, chlorine plants, sash and door works, lumber mills, mattress factories and many small concerns. An airport with an adjacent army aviation base is now under construction and will require a regular force of about 2,000 men. There is also production of oil in the southern suburbs of the city known as University Field and drilling is being carried on around Baton Rouge. The three largest industrial enterprises in the district are the Standard Oil Company of Louisiana, Ethyl Gasoline Corporation and the Solvay Process Company, all of which are located in North Baton Rouge.

Q. Do you serve any customers from places other than from your main interconnected gas system? [R. p. 5321] A. Yes. As shown on the map we purchase gas for re-sale at three smaller connections, namely, Louisiana Chemical Company and Southern University to the north, and the McInnis tap (Inniswold Plantation) to the south.

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[R. p. 5322]

Mr. Breckinridge: Mr. Examiner, I offer in evidence a map which has been marked applicant Gulf States Utilities Company Exhibit No. 2.

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GULF STATES GAS SYSTEM (Cont'd)

Mr. Fischgrund: No objection.

The Examiner: The document which has been marked as Applicant, Gulf States Utilities Company Exhibit No. 2, may be received in evidence.

(The map above referred to was received in evidence and marked Applicant, GSUCo Exhibit No. 2.)

(By Mr. Breckinridge)

Q. Please state the number of customers connected to the company's mains as of January 1, 1941? A. On January 1, 1941 there were 12,542 customers using gas, of which 11,392 were classed as residential and 1,150 were classed as commercial and industrial.

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[R. p. 5324]

Q. What are your arrangements for purchasing natural gas from the Interstate Natural Gas Company, Inc.? A. All natural gas required by the Company for distribution in the City of Baton Rouge and the Parish of East Baton Rouge is purchased by the company from Interstate Natural Gas Company, Inc., under a contract dated June 1, 1937, which by its original terms would have expired on May 1, 1940.

This contract, however, has been extended by an extension agreement between the parties dated November 22, 1939, so that its terms now expires on May 1, 1950, subject to certain rights of termination prior to such time at the company's option.

[R. p. 5325] In a supplemental agreement, dated November 22, 1939, the rates to the company under this contract have been reduced for a minimum term of three years, beginning November 22, 1939, and for such further time as natural gas is available to Interstate Natural Gas Company, Inc., from the so-called University Field, just outside of Baton Rouge,

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or within a radius of ten miles of the city, sufficient in its opinion to supply 1,500,000 cubic feet a day to the company under this contract.

The purpose of the supplemental agreement was to reduce the price of gas to the company so long as an adequate supply of gas was available in and about Baton Rouge without, however, relieving Interstate Natural Gas Company, Inc., from its obligation to furnish the company's entire requirements of natural gas for distribution as aforesaid from its other sources of supply regardless of the amount of natural gas available in the vicinity of Baton Rouge.

The above contract and the two agreements extending and supplementing the same were negotiated with two major objects in view; first, to insure an adequate and dependable supply of natural gas available to the company for distribution to its consumers for a period extending to 1950, and, secondly, by virtue of the various rights of termination at the company's option as provided in this contract, as extended and supplemented, to obtain every reasonable assurance that an [R. p. 5326] adequate and dependable supply of natural gas would be available as aforesaid at the lowest rates obtainable under competitive conditions.

There are two principal metering stations for measuring the quantity of natural gas delivered to the company by Interstate Natural Gas Company, Inc., under that contract, as extended and supplemented, one at the extreme northern edge of Baton Rouge in Monte Sano and the other at the southern extremity of Baton Rouge known as the University Field.

Q. Please tell us about the activity in and around Baton Route in connection with the drilling of oil and gas wells and the company's connection with that, if any. A. Beginning in 1933, various wells were drilled in the district at the southern edge of the city known as University Field, but

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GULF STATES GAS SYSTEM (Cont'd)

it was not until 1938 that a discovery oil well was brought in in a sand at approximately 6,400 feet.

In the early months of 1939 a gas well was brought in in a sand at a depth of around 7,100 feet, this being the first gas well in the field, and in May, 1939 another gas well was brought in in a 4,350 foot depth sand. The information on the field at that time showed a gas sand at 4,350 feet, an oil and gas sand at approximately 6,400 feet, and another gas sand at 7,100 feet.

Our company had followed this development from the early stages in 1933 with interest and it was at this time that all [R. p. 5327] available geological data was accumulated and calculations began on the real extent of these gas productive zones.

Q. What was the next step with reference to these discoveries? A. Gas experts were engaged by the company for a technical production opinion. Conferences were held with the major companies interested in the field, prices discussed and estimates prepared as to the possible amount of recovery from this field. Preliminary investigation indicated a storage of gas that would possibly supply Baton Rouge over a period of several years.

As the field developed, more information and data became available and in September, 1939, the Ralph E. Davis Company, Inc., was called in to make an estimate of the reserve of the field. This firm advised that this was primarily an oil field and that the proven gas reserves were not sufficient to handle all of the gas requirements of the company for resale for more than a limited period of time.

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[R. p. 5328] By Mr. Breckinridge:

Q. Will you please continue, Mr. Leonard? A. From the conclusion of their report I now quote: "this field is primarily an oil operation in which the oil production and reserves are of considerably greater economic importance

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GULF STATES GAS SYSTEM (Cont'd)

than the production of natural gas for pipe line use. We believe that future developments and operation of this oil field will require large quantities of gas and that only excess gas production will be available to pipe lines. It is our opinion that more than one-half of the total proven gas reserve will ultimately be so consumed in oil field operations that the quantity of gas ultimately available from this field for pipe line use will approximate 7,000,000 M cubic feet."

From a letter in connection with their report I [R. p. 5329] now quote:

> "The quantities of pipe line gas available from the University Field during the next two or three years will very likely be sufficient to meet the Baton Rouge market requirement for this period, but as the field becomes older and depletion continues, it is expected that the rate of production will decline, more gas will be demanded for oil field operations and successively lesser quantities will be available for pipe line purposes. Although a seven year supply of pipe line gas is indicated, it is believed that the rate at which this gas will become available will decline after the first period of flush production and that the market requirement of 1,000,000 M cubic feet per year cannot, therefore, be met for a seven year period.
>
> "After due consideration of all the factors which will influence the quantities of gas produced during a given time and the declining rates at which pipe line gas may become available, it is our opinion that the University Field could not supply the entire requirement and safely meet the peak load demands of the Baton Rouge market for more than a limited period of time and, therefore, would not [R. p. 5330] be dependable as the sole source of the future gas supply for your Company."

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GULF STATES GAS SYSTEM (Cont'd)

Total purchases for the distribution system for the year 1940 were 1,168,309 M cubic feet.

The management felt that the estimated ultimate recovery would not justify the line investment necessary to transport this gas in sufficient quantities and it would not be prudent to rely on this field as a sole source in view of the short life of the reserve.

Therefore, the extension contract was entered into with the Interstate Natural Gas Company, Inc., which acquired this reserve, pursuant to which, Interstate agreed to furnish a portion of the Baton Rouge requirements from the University Field, and since this reduced some of the transmission costs, a lower schedule of purchase prices based on the life of the field was included in the supplemental agreement.

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[R. p. 5331] (By Mr. Breckinridge)

Q. Were the reductions made in the Extension Contract of November 22, 1939 passed on to the consumer by the gas department? A. Yes. The supplemental agreement was entered into on November 22, 1939 and effective December 5, 1939 a reduction which amounted to approximately $90,000 per year on the basis of the then consumption, or 16 per cent [R. p. 5332] of the company's annual gross revenue from the sale of gas, was passed on to its consumers by Gulf States Utilities Company. This reduction to the consumer is a temporary reduction to continue only so long as Gulf States Utilities Company obtains the lower gas purchase price from the Interstate Natural Gas Company, Inc. This reduction was estimated to be approximately the amount of the reduction in the purchase price Gulf States Utilities Company received in the extension agreement with Interstate Natural Gas Company, Inc.

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GULF STATES GAS SYSTEM (Cont'd)

[R. p. 5335] Q. Will you describe the size and character of the gas mains? [R. p. 5336] A. The distribution system is composed of approximately 169 miles of main (as of December 31, 1940), consisting of 52 miles of low pressure system mains operating under a pressure of 6-inch to 8-inch water column, or approximately 3½ to 4½ ounces, and 117 miles of intermediate pressure system mains operating under a pressure of 15 to 55 pounds per square inch gauge. The variations in both the low pressure system and the intermediate pressure system are controlled in accordance with demand. The major portion, then, is a semi-high pressure or intermediate pressure system; the older part, that is, the cast iron pipe in the downtown district, being low pressure, and the new welded steel pipe in outlying sections being intermediate pressure. The construction policies of extension have been to continue the cast iron in the old established section to insure a long life in districts completely paved and having poor accessibility, while in the new subdivisions steel welded pipe is used in smaller size with a view to holding investments to a minimum. Of the cast iron pipe operated at low pressure, there are 261,148 feet or 49.46 miles of a diameter of 3 inches, 4 inches, 6 inches, 8 inches, or 10 inches; of the cast iron pipe operated at intermediate pressure there are 484 feet of diameter of 4 inches; of the steel pipe operated at intermediate pressure there are 620,437 feet, or 117.5 miles of a diameter [R. p. 5337] of 1¼ inches, 2 inches, 3 inches, 4 inches, 8 inches, or 10 inches; and of the steel pipe operated at low pressure there are 12,903 feet, or 2.443 miles of the diameter of 2 inches, 3 inches, 4 inches or 6 inches; making a total of 894,972 feet of pipe, or 169.5 miles, of which 17.185 miles is cast iron pipe under paved streets and 2.189 miles is steel pipe under paved streets, making a total mileage under paved streets of 19.374 miles.

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GULF STATES GAS SYSTEM (Cont'd)

Q. What type of service lines do you install from your street mains to serve the customers? A. Standards have been adopted to install ¾ inch services on the intermediate pressure system and 1¼ inch on the low pressure system for the average size domestic dwelling. The service line from the main to the meter, which is generally located at the side or rear of the building, is installed, owned and maintained by the company. In both cases, sizes are increased where the consumption warrants.

Q. How many services does the gas department have? A. As of December 31, 1940, the gas department had 11,926 services.

Q. Does the gas department have any regulator stations in addition to those you have heretofore described? A. Yes. The low pressure system, consisting of 52 [R. p. 5338] miles of main, is fed by thirteen district regulator stations. These stations are equipped with either Chapman-Fulton or Emco regulators and each is housed in an underground vault. Two of these regulators have automatic boosting devices which raise the pressure on the regulator during hours of maximum demand.

Q. Then please describe the equipment the gas department operates for transportation purposes. A. The department operates sixteen vehicles, consisting of two line construction trucks, one pipe trailer, two passenger cars, five pick-up trucks (one of which is used jointly with the electric department), two service trucks, and four meter trucks.

Q. Will you please comment on the tools and equipment used by the gas department? A. We have one Ingersoll Rand portable air compressor which is used jointly with the electric department; one 2-inch Mueller stopping and pressure control unit; one 4-inch Mueller stopping and pressure control unit; four complete welding outfits; and miscellaneous smaller tools and equipment.

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GULF STATES GAS SYSTEM (Cont'd)

Q. Please comment briefly on the meters. A. We have on hand, either in service or in the shop for repair, 14,359 gas meters. 7,996 of these are the tin type meter, ranging in size from 5B to 20B; 6,234 are iron [R. p. 5339] meters, ranging in size from 5B to No. 25B; and 129 are considered industrial meters, which range in size from 30B to No. 5. All of these meters are standard and approved makes.

Q. Please comment on your domestic regulators. A. Approximately 6,640 domestic regulators are used in connection with the meters. The majority are ¾ inch or one inch, of standard makes.

Q. Does the gas department use any land jointly with the electric department? A. Yes. It uses one lot 80 feet by 133½ feet, located at the Monte Sano Highland Farms Addition. This site is used jointly for a gas regulating and metering station and the electric department also has a substation on that property.

In addition, the company owns one city block fronting on Government Street, in the City of Baton Rouge, Louisiana. On this block of land two buildings are situated that are used jointly for the storing of materials and supplies and storing and servicing company automobiles used in the operation of the company for both the gas and electric departments. In these buildings are also the offices of the operating department heads of the company, together with engineering offices, meter testing department and a gas laboratory. That part of the land not occupied by the two buildings I mentioned is used for the parking of automobiles [R. p. 5340] of both departments, storing of poles, transformers and other heavy materials and equipment used by the electric department and the storing of heavy pipe and fittings used for mains and services by the gas department, and a brick building housing a low pressure district regulator.

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GULF STATES GAS SYSTEM (Cont'd)

The joint use of this property has been advantageous from the standpoint of savings and efficiency in the operation of our company.

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[R. p. 5350]

Q. Please give us a description of the departments which make up the gas department. A. The gas department is composed of a personnel of an average of 76 regular full-time employees, not including joint employees. This personnel is under the supervision of the gas superintendent, and is divided into four groups in the operation of this system: namely, engineering department, meter laboratory, service department, and construction and maintenance department.

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[R. p. 5353]

Q. What method of testing and repairing meters and regulators has been used since 1936? A. As a result of several years of study and experiment, it was found that one periodic test date could safely be eliminated. Accordingly, in September, 1936, a new inspection and repair schedule of our meters was adopted, being 7-5-4-year test. This has resulted in substantial savings over a period of time from a standpoint of repairs, and has also materially reduced the cost of removing and resetting meters.

The domestic service regulators are scheduled for the same periodic inspection as meters. That is, both meter and regulator installed at a given address are changed for periodic inspection at the same time. By this arrangement we eliminate extra trips for the purpose of removing either the regulator or the meter at a later date.

Q. What are the actual savings which this new method of testing meters has resulted in? A. In 1939, the average cost per meter through shop test and repair was $2.92 as compared to an average cost of $3.24 in 1935. The average cost for 1940 was $2.30.

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H. C. Leonard—Direct Examination (Cont.)

GULF STATES GAS SYSTEM (Cont'd)

[R. p. 5354]

Q. What facilities are maintained in the gas department for answering complaints and attending to trouble calls? A. A trouble department, operated jointly with the electric department, receives all calls of complaints and troubles of any nature. Telephone operators are on duty twenty-four hours a day and they record all calls, the time and nature of the trouble and dispatch orders to the service men in the field. This office duly record all orders when completed and files them for future reference.

Three experienced trouble men are normally used to attend to any calls or complaints received by the trouble department. Two of these men are available during the day and one until 10:00 p. m. The man working the evening shift is subject to call during the night and until the other two trouble men report for duty the following morning. Thus, 24-hour service is actually rendered. Any complaint or call pertaining to gas trouble is answered and remedied during the night as well as the day.

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[R. p. 5358] Q. Will you please state what is meant by the term "unaccounted for gas"? A. Unaccounted for gas is the difference between gas purchased on the one hand, and gas sold and used by the Company on the other. The difference includes losses from leakage, illegal diversion, stuck meters, and so forth.

Q. In other words, the term "unaccounted for gas" includes a number of factors other than leakage? A. Yes, but leakage is by far the most important factor.

Q. Will you state the amount of unaccounted for gas on your system for the year 1938? A. In the year 1938, the total gas purchased was 936,538 M. cubic feet, and the total gas used and sold by the company was 828,906 M. cubic feet, leaving gas unaccounted for in that year 107,632 M. cubic feet, making the percentage of gas unaccounted for 11.5 percent.

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GULF STATES GAS SYSTEM (Cont'd)

Q. Will you state the amount of unaccounted for gas on [R. p. 5359] your system for the year 1939? A. In the year 1939 the total gas purchased was 927,851 M. cubic feet, and the total gas used and sold by the company was 857,582 M. cubic feet, leaving gas unaccounted for in that year of 70,269 M. cubic feet, making the percentage of gas unaccounted for 7.6 percent.

Q. Will you state the amount of unaccounted for gas on your system for the year 1940? A. In the year 1940, the total gas purchased was 1,168,309 M. cubic feet, and the total gas used and sold by the company was 1,114,578 M. cubic feet, leaving gas unaccounted for in that year of 53,731 M. cubic feet, making the percentage of gas unaccounted for 4.6 percent.

Q. Can you explain to some extent the improvement in unaccounted for gas during the years 1939 and 1940? A. This material decrease in the percentage of unaccounted for gas is largely due to two factors: First, the continuous work that we have been doing each year in locating and repairing leaks between the joints of pipes in our system and locating and replacing defective sections of pipe; and the second factor is the matter of operating the system at the lowest possible pressures. During 1939 we made a particular study of the minimum pressures at which it was feasible to operate our system in order to render adequate service to our customers. As a result of this study it was found that certain substantial [R. p. 5360] sections of our system could be and were operated at pressures below that which had been previously in use. I should like to say that the reduced system pressure does not reduce the pressure at the customer's meter, as a pressure regulator intervenes between the mains and the meter which controls the customer's pressure.

Q. Do you have any regular system of inspection of equipment in the Gas Department? A. Yes. All regulator stations and vaults are inspected monthly by the Meter

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GULF STATES GAS SYSTEM (Cont'd)

Shop foreman for efficient operation, leakage and general condition. Faulty conditions are reported and immediately remedied. Twice monthly the Gas Department Safety Committee inspects the Meter Laboratory, tools and equipment, and all trucks, for general condition, appearance and safety of operation. Reports and recommendations are made, and unsatisfactory conditions or hazards are eliminated.

Q. What has been done by the Gas Department to keep informed of advancements in the industry? A. To be informed of the modern methods of operation and advancement of the industry, the Gas Department maintains memberships in the American Gas Association, Southern Gas Association, and National Safety Council.

An employee of the Gas Department has represented the Gulf States Utilities Company at the National Safety Congress held in 1937, 1938, and 1939; and the Southern Safety Conference [R. p. 5361] held in 1938, 1939 and 1940. In addition, a representative from the Gas Department Meter Laboratory attends the Gas Measurement short course held at Norman, Oklahoma, each year, and one or more representatives attend the convention of the Natural Gas Section of the American Gas Association each year.

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[R. p. 5376] (By Mr. Breckinridge)

Q. Does the gas department of your company have a good safety record? Q. Yes, we have an excellent record. For two consecutive years, namely, 1937-1938, the gas department placed second in a [R. p. 5377] group of 57 competing companies in the safety contest sponsored by the National Safety Council. For each of those two years this department had a perfect record of no lost-time accidents, but there was one other company which also had a perfect score that worked more man-hours. In 1939 we again had another perfect year; in fact, throughout the entire year of 1940 and up to April 1, 1941 the gas department employees had worked over 1,605 days without a lost-time accident.

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GULF STATES GAS SYSTEM (Cont'd)

Q. How have you been able to maintain this excellent record? A. A well-balanced safety program beginning with the management of the company has been firmly established, not only in the gas department but throughout the organization. This has been made possible only by splendid cooperation of management and employees over a period of several years. The management has enthusiastically supported worthy safety movements and has voluntarily given financial assistance and time to solve safety problems.

The general superintendent of the Baton Rouge Division of the company serves actively as chairman of the Central Safety Committee, which is composed of the superintendents of the electric, gas and sales departments, a representative from the accounting department, the vice chairman and a secretary. The purpose of this committee is to formulate company policies regarding accident prevention work and act in an advisory capacity [R. p. 5378] to the various departments. Monthly meetings are held, at which time the accidents which occurred during the previous month are discussed with a view to determining the cause of the accident and how similar accidents may be prevented in the future. Many suggestions have been received from this committee which have materially assisted the gas department in reducing the number of accidents and maintaining the fine record established.

Q. Is there a safety organization within the gas department? A. Yes. Each sub-department head in the gas department is held responsible for the safety organization in his respective department. The gas superintendent appoints a group of gas department employees to act as a safety committee within the department for a period of six months. Frequent changes are desirable so that more employees will have an opportunity to serve and no one is allowed to grow stale on the job. This committee is composed of a safety director, secretary, four safety inspectors

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GULF STATES GAS SYSTEM (Cont'd)

for the following: jobbing and trouble trucks, meter laboratory, engineering office, tool room and construction tools.

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[R. p. 5382] By Mr. Breckinridge:

Q. Please describe the joint use of equipment by the gas department with other departments of the company? A. The gas department of this company uses jointly with the electric and water departments the general office building and service building, both located in Baton Rouge, Louisiana. The gas department is furnished with electric energy by the electric department, and the electric department is furnished with gas by the gas department.

Q. Is there any joint use of automotive equipment? A. The gas and electric departments maintain separate automotive equipment. In cases of emergency, should it become necessary for the electric department to have use for more automobiles and trucks than it normally uses, the gas department equipment is used. The same applies should the gas department find need for use of additional equipment and obtain same from the electric department. There is a joint use by the gas department and other departments of automobiles in the office pool, which means those used by executives, the accounting and sales departments.

Q. In your opinion, has the gas department been operated to the best interest of the consumers of Baton Rouge and adjacent districts through the combined management of the gas and electric departments?

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[R. p. 5383] A. Yes. I am of the definite opinion that the gas department has been operated efficiently under this joint operation. The joint use of buildings and equipment, personnel in accounting, sales and management, insurance and land, have resulted in savings to both the gas department and the other departments.

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GULF STATES GAS SYSTEM (Cont'd)

[R. p. 5384] (By Mr. Breckinridge)

Q. Will you state briefly the various businesses in which Gulf States Utilities Company is engaged? A. In addition to its gas business, the company is engaged in the businesses of generating electric energy and distributing and selling the same at retail and wholesale in an area in southeastern Texas and south-central Louisiana. The company also supplies water in seven communities and manufactures ice and distributes the same at retail and wholesale. It is also engaged in the merchandising of gas and electric appliances.

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[R. p. 5395] (By Mr. Breckinridge)

Q. Will you state briefly the status of Gulf States Utilities Company as a public utility or public service company under applicable state laws? A. The Company has been advised by its counsel that in Texas the rates of the Company are subject to the jurisdiction of municipal authorities and as to all rates, including those in unincorporated towns and rural sections, the state district court has authority to declare unlawful an extortionate or unreasonable rate. The Company has also been advised by counsel that in Louisiana the Law provides generally that the Department Public Service has jurisdiction over the rates and services of public utility companies, of which our Company is one. In both states this jurisdiction, [R. p. 5396] the Company has been advised, applies to both gas and electric rates and services.

The Company has also been advised by counsel that there is no law in the State of Louisiana or the State of Texas prohibiting the common ownership and operation of gas and electric facilities in the same territory. In fact the charter of Gulf States Utilities Company, which is a Texas Corporation, specifically permits the Company to carry on both an electric and gas business, and Gulf States Utilities Company has been duly qualified as a foreign corporation in the State of Lousiana.

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GULF STATES GAS SYSTEM (Cont'd)

(Appendix pages 685 to 772, inclusive, contain excerpts from the transcript of hearings before the Trial Examiner of the Commission, held pursuant to the Commission's Order under Section 11(b)(1) of the Act. The numbers in brackets indicate the paging of the certified transcript, which are the same as that of the original reporters' transcript. Corrections have been made in these excerpts in conformity with the corrections set forth in Document No. 417—R. pp. 8149-8228).

[R. p. 1365] TOM P. WALKER

called as a witness on behalf of the Respondents, being first duly sworn, was examined and testified as follows:

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Direct Examination

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(By Mr. Tucker)

[R. p. 1374] Q. Will you describe what is shown on the chart marked Exhibit 72 for identification? A. This chart shows that the president of the company, located in Beaumont, has general charge over the company's operations and personnel. There are located in the general offices at Beaumont the treasurer of the company, the general operating manager, and the general sales manager, and these three officials and the department heads working under them supervise the various operations of the company. In addition a vice president of the company located at the general office in Baton Rouge has general supervision over the Lake Charles and Baton Rouge divisions, and shares responsibility in these divisions with the treasurer, general operating manager, and general sales manager for operations in their respective fields.

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GULF STATES GAS SYSTEM (Cont'd)

The Beaumont division is supervised by the general office department heads, there being no separate division or district setup such as in the Port Arthur or Navasota divisions. You will note that the chart brings out this fact by repeating the general setup and showing the president, treasurer, general [R. p. 1375] operating manager and general sales manager as in direct charge of the division's operations. In the Beaumont general office are also located employees such as the purchasing agent, the rate engineer, general engineer, superintendent of production, claim agent, power sales supervisor, lighting sales supervisor, advertising director, and so forth, who are responsible in their respective fields for operations of the entire company.

Similarly, in the Baton Rouge division, the vice president in charge of the Baton Rouge and Lake Charles divisions has general charge of the activity of the Baton Rouge division. He has under his direct supervision an assistant treasurer-assistant secretary, general superintendent and a sales manager who, through appropriate officials, carry on work of the division. Many of the electric department employees in the Baton Rouge division have, in addition, direct responsibilities for the operation of the gas department, and we have indicated these joint employees by an appropriate marking.

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TOM P. WALKER

Cross Examination

[R. p. 1390] Q. (By Mr. Lester) Mr. Walker, will you refer to Exhibit 79 and to the annual report for 1940 of Gulf States Utilities Company? A. Yes, I have it.

Q. I want to go over the list of directors with you and establish their identity and residence.

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GULF STATES GAS SYSTEM (Cont'd)

Who is Mr. Munger T. Ball? A. Mr. Munger T. Ball is President of the Sabine Transportation Company, and he lives in Port Arthur, Texas.

Q. Is he a stockholder of your company? A. I don't know.

Q. Is he in any way affiliated with your company? A. No, except as a Director.

Q. Now Donald C. Barnes is the President of Engineers Public Service Company and Engineers Public Service Company, Inc.; that is correct, isn't it? A. Yes.

Q. He resides in New York City? A. Yes.

Q. Now Thomas J. Hanlon, Jr. is the Vice President of Engineers Public Service Company, Inc., is he not? A. Yes.

Q. Harold C. Leonard is the Vice President in charge of the Baton Rouge and Lake Charles divisions? [R. p. 1391] A. Yes.

Q. Who is Charles P. Manship? A. Charles P. Manship is President of the Capitol City Press, and lives in Baton Rouge, Louisiana.

Q. Who is Will E. Orgain? A. Mr. Orgain is a member of the law firm of Orgain, Carroll & Bell, Beaumont, Texas.

Q. Is it correct that they are Texas local counsel for Gulf States? A. They are the general counsel for Gulf States Utilities Company.

Q. And who is C. Vernon Porter? A. He is a member of the legal firm of Taylor, Porter, Brooks & Fuller, and they are counsel for the company in Louisiana.

Q. And of course Tom P. Walker is yourself? A. Yes, sir.

Q. Now referring to the officers, you are President of Gulf States Utilities Company, and reside in Beaumont? A. Yes.

Q. I take it that Harold C. Leonard is Vice President in charge of the Louisiana properties? A. Yes.

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GULF STATES GAS SYSTEM (Cont'd)

Q. That is the Lake Charles division and the Baton Rouge division? [R. p. 1392] A. Yes, sir.

Q. Donald C. Barnes, Vice President, is again President of Engineers Public Service Company and Engineers Public Service Company, Inc.? A. Yes.

Q. Henry V. Faber is a resident of Beaumont? A. Yes.

Q. He is Treasurer of the company? A. Yes.

Q. Who is John G. True? A. John G. True is a Vice President of the company in charge of the Lake Charles Division. He lives in Lake Charles, Louisiana.

Q. Now, Samuel B. Tuell is the Vice President of Engineers Public Service Company, Inc.? A. I think so.

Q. And Richard N. Benjamin is Secretary of Engineers Public Service Company and Engineers Public Service Company, Inc.? A. Yes.

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TOM P. WALKER

Re-direct Examination

[R. p. 1392] Q. (By Mr. Tucker) Is it proposed to elect an additional Director at [R. p. 1393] some time in the future; and if so, who, and when? A. Yes, our stockholders' meeting is to be held in Beaumont on June 9, and the management is proposing to present Mr. John G. True's name, the Vice President in charge of the Lake Charles Division, as a Director of the company.

Q. Is Mr. Manship, except for his being a Director of the company, in any way connected with or affiliated with the company? A. No.

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[R. p. 1957] HENRY V. FABER,

called as a witness on behalf of the Respondent, being duly sworn, was examined and testified as follows:

Mr. Tucker: Mr. Examiner, would there be any objection to having Mr. Faber's assistant sit with him up there, since he is going to have a lot of papers, and he may be helpful to him in finding different things required in the testimony.

Mr. Fischgrund: I have no objection.

Mr. Tucker: I don't think it will be necessary on his direct examination but it probably will be on cross-examination, [R. p. 1958] unless you want him there on direct.

The Witness: No, I don't think so.

Mr. Tucker: All right.

Direct Examination.

Q. (By Mr. Tucker) Will you please state your name, address and business connection? A. My name is Henry V. Faber; my business address is 362 Liberty Avenue, Beaumont, Texas. I am Treasurer of Gulf States Utilities Company.

Mr. Tucker: I wish to state at this time that I wish to qualify Mr. Faber as an expert utility accountant.

Q. (By Mr. Tucker) Will you please state briefly your education, experience and qualifications for the position which you hold. A. June, 1920—Graduated in accounting and business law, Wharton School of Finance, University of Pennsylvania, after a three-year course. From June, 1920 to March, 1921 I was an assistant in the auditing department of Stone & Webster Service Corporation in Boston, Massachusetts, where it was my duty to assist the auditors in their field work, auditing the accounts and records of companies which at that time employed the services of that organization. From March, 1921 to May,

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GULF STATES GAS SYSTEM (Cont'd)

1922 I held the positions of chief clerk and later assistant treasurer of the Haverhill Gas Light Company at Haverhill, Massachusetts. [R. p. 1959] From May, 1922 to June, 1926 I was employed in a study of accounting methods and procedure and the necessary forms related thereto in Stone & Webster Service Corporation in Boston, Massachusetts, when considerable progress was made in the standardization of forms for the companies receiving service from Stone & Webster Service Corporation. From June, 1926 to April 1928 I was the assistant treasurer of the Jacksonville Traction Company in Jacksonville, Florida. From April, 1928 to February, 1934 I was assistant treasurer and later treasurer of the Savannah Electric and Power Company, Savannah, Georgia. Among my duties there was the supervision of rates. From February, 1934 to the present date I have been treasurer of Gulf States Utilities Company in Beaumont, Texas, and my duties there have also included the supervision of rates.

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[R. p. 1962] Q. (By Mr. Tucker) Turning your attention first to the matter of interdepartmental charges for electricity, what have you decided with respect to that item? A. I found that the most accurate allocation of the cost of electricity by departments would be obtained by establishing a charge for electricity, based on $12.00 per kw per year, plus switchboard costs, plus transmission costs, and have applied the rate so determined to the amount of electricity consumed by each department, considering line losses.

Q. What about the charge for gas? A. I determined that the best method of allocating charges for gas used by other departments was to take a rate based on the cost of gas purchased for use by the company, plus the factor of unaccounted-for gas, plus the cost of distribution. We pay 13 cents per 1,000 cubic feet for gas purchased for [R. p. 1963] company use, and, because the small amount of gas

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used by joint departments did not warrant a very extensive study of these elements, I have used 25 cents per 1,000 cubic feet for this item.

Q. What have you decided is the best method of allocating charges for water between departments? A. I have determined that a fair method of allocating charges for water used by other departments is to determine a rate based on production and purification expenses, taxes, depreciation and interest, and have applied this rate to the water used by the electric and ice departments. This rate I have calculated to be 16 cents per thousand gallons.

Q. What have you decided is the fairest method of allocating expenses of joint-use buildings? A. In the case of rented bulidings a division should first be made on the basis of floor space between space used for merchandising and space used for other purposes. The space used for other purposes should be divided, I believe, between departments on the basis of the gross revenues of such departments. When I speak of gross revenues I mean the gross revenues of the electric, gas, water and ice departments, excluding the revenues from sales of electricity and steam to the three large industrial customers. In cases where the building is concerned only with local operations the revenue basis I refer to means the relationship of the revenues in [R. p. 1964] that particular locality. In the case of the main office building at Baton Rouge the departmental gross revenue basis I speak of is that for the State of Louisiana, since the people in that building, with one exception, work on matters relating only to the State of Louisiana. In the case of company-owned buildings, I believe that there should be an allocation of the fixed charges and operating expenses to the various departments using such buildings, on the same basis I have just described for the allocation of the rent of rented buildings.

Q. What method do you think is the most equitable for allocating the charges for equipment which is jointly used

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GULF STATES GAS SYSTEM (Cont'd)

by more than one department? A. The most equitable manner of allocating the cost to departments for jointly used office equipment would be to distribute the fixed charges to those departments on a gross revenue basis such as I have just described, in which I would include the gross sales of merchandise.

Q. What method do you consider most equitable in allocating the salaries and expenses of personnel who perform work for more than one department? A. Certain of our employees work on a daily time slip basis, and their time should be assigned direct to the department for which the work was done. This includes such employees as linemen, truck drivers, draftsmen, instrument men, servicemen, trouble men, maintenance men of all kinds, and workers on [R. p. 1965] construction. Payroll costs of certain other joint employees for whom it is not practicable to turn in daily time slips should be assigned directly to the department for which they work on the basis of time studies which would be revised periodically. This group of employees includes cashiers, billing machine operators, district representatives, certain clerks, switchboard operators, plant operators, etc. There are certain employees who confine their activities to one state. I think the fairest method of allocating the payroll of such of these employees for whom it is not practicable to keep time slips or make time studies would be to allocate charges for their time on the basis of departmental gross revenues in the state in which their activities are confined. There are certain Texas employees who spend a portion of their time on activities relating to Louisiana. The proportion they spend on Louisiana work should be determined from time to time on a time-study basis. The proportion assigned to the State of Louisiana should be divided among the departments in Louisiana on the basis of departmental gross revenues in that State. There are certain employees, principally the general supervisory employees, whose activities have to do with the entire

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system operation. It is my judgment that their time cannot accurately be determined on a time study basis, and under such circumstances I think the most equitable method is to allocate the charges for these [R. p. 1966] individuals between departments on the basis of departmental gross revenues for the entire system, including revenues from merchandise sales. Some of these employees spend a portion of their time on construction and other work which is accounted for by time reports or slips. The remainder should be split as mentioned.

Q. How do you suggest allocating the expense between departments on automotive equipment? A. The complete costs of operating automotive equipment should be allocated between departments on the basis of hours of use.

Q. How would you suggest allocating the costs of operating joint storerooms? A. The cost of operating joint storerooms should be handled on the basis of issues of materials to departments.

Q. How would you allocate taxes? A. Taxes should be allocated directly, so far as possible, to the department responsible for the taxes. Federal and state income taxes should be allocated by departments on the basis of taxable net. Property taxes on jointly used buildings should be included in the calculation of fixed charges relating to such buildings, and should be allocated to departments on the basis I have heretofore stated. Federal capital stock tax should be assigned on the same basis as federal income tax. All taxes in connection with payroll should follow the payroll [R. p. 1967] charges. Supervision taxes should be allocated to the departments on the basis of gross revenues. Franchise taxes should be on an actual basis where applicable to one department; otherwise, the amount should be segregated on the basis of property values of the respective departments.

Q. What conclusion have you reached as to the allocation of general expenses? A. Payments of a general nature

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GULF STATES GAS SYSTEM (Cont'd)

such as the charge of Engineers Public Service Company, Inc. under the service company contract, should be allocated on the basis of gross revenues.

Q. What basis have you used in allocating charges for interest and amortization between departments? A. Interest and amortization should be allocated between departments on the basis of the respective book investment in property in each department subject to the mortgage. In other words, no allocation of these items should be made to the ice department and certain other non-utility properties since these are not subject to the mortgage.

Q. Are there any other interest items which you have not already mentioned which you feel should be allocated between departments? A. I have mentioned all of the important items. There is also the item of interest on consumers' deposits which is allocated on a gross revenue basis.

[R. p. 1968] Q. What method do you recommend as being the fairest one for the allocation of items of income and expense in the so-called non-operating income net account? A. The net income from the merchandise department is included in this account and is of course directly assignable to the electric or gas merchandising department, as the case may be. I believe all the items should be examined and assigned to departments on the basis of a study and where the study does not develop into a direct departmental charge, then in such cases those itmes should be distributed on a revenue basis.

Q. Do you have with you in exhibit form an income statement for the year 1940 showing a breakdown between the electric, gas, water and ice departments reflecting the method of allocation of expense which you have been discussing and which you have stated to be the most equitable method? A. Yes.

Q. Was this prepared under your supervision and do you believe it to be correct? A. Yes.

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Henry V. Faber—Direct Examination (Cont.)

GULF STATES GAS SYSTEM (Cont'd)

Mr. Tucker: I would like to have this marked for identification as Engineers' Exhibit No. 119, and I offer it in evidence.

The Examiner: It is received in evidence as Engineers' Exhibit No. 119.

(Engineers' Exhibit No. 119 was received in evidence.)

[R. p. 1969] Q. (By Mr. Tucker) Please tell us what this statement shows to be the balance remaining before interest and amortization for each of the four departments mentioned and give us the amount of increase or decrease of each of such balances as compared with the amount shown on Exhibit 7 in the gas status proceedings, Docket No. 31-506 incorporated in the record in this proceeding by order of the Commission which is based on the method of allocation now in use by the company? A. The balance before interset and amortization of the electric department for the year 1940 as shown by gas exhibit No. 7 was $3,504,889.01. The banace shown by the revised statement Engineers' Exhibit 119, is $3,529,091.30, or an increase in such balance of $24,202.29. In the case of the gas department the balance shown by gas exhibit No. 7 was $178,003.82, and the balance shown by Engineers' Exhibit 119 is $163,998.10, which represents a decrease of $14,005.72 in such balance. The balance available in the water department for the year 1940 before interest and amortization as shown by gas exhibit No. 7 was $57,425.67. The balance shown by Engineers' Exhibit 119 is $49,715.21; or a decrease in such balance of $7,710.46. The balance shown for the ice department in gas exhibit No. 7 was $34,088.99 in the red. The balance shown by Engineers' Exhibit 119 is $36,575.10 in the red, or a decrease in such balance of $2,486.11.

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GULF STATES GAS SYSTEM (Cont'd)

H. V. FABER

Further Direct Examination

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(By Mr. Tucker)

[R. p. 3936] Q. Will you turn to the third page of Engineers' Exhibit 226 and explain what this page shows? A. This page shows the total expense within the Baton Rouge district that we have discussed for Electric and Gas, and the number of customers, Electric and Gas, and the average cost of those customers in cents, for Electric and Gas, and the total for those three items.

Q. Those average costs shown on the exhibit are what? A. Those average costs shown on this exhibit are a matter of taking expenses and dividing them by the number of [R. p. 3937] customers, Electric or Gas.

Q. And what did they turn out to be? A. They turned out to be 15.4 cents for Electric; 14.6 for Gas; and 15.1, total; and down at the bottom of the page you will notice that we have arranged the exhibit to show what it would cost to read a combination customer, 14.6 cents, both Electric and Gas, and 16.9 cents for Electric—a single-service customer.

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[R. p. 3941] Q. (By Mr. Tucker) Mr. Faber, have you made a study to determine the amount of additional expense which would be incurred if the Gas Department of Gulf States Utilities Company were operated as an independent company? A. Yes, I have.

Q. Do you have with you in exhibit form a tabulation showing in detail the amount of additional expense which would be incurred by the Electric and other departments of the Company and the amount of additional expense which would be incurred by the Gas Department, on the assumption in both cases that the Gas Department is

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operated as an independent company? A. Yes, I have that in exhibit form.

Q. Was this prepared under your supervision and do you believe it to be correct? A. It was and I do.

Mr. Tucker: I would like to have this tabulation marked for identification as Engineers' Exhibit No. 227 and I offer it in evidence.

The Examiner: All right, let it come in under that number.

(Engineers' Exhibit No. 227 was received in evidence.)

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[R. p. 3942] Q. (By Mr. Tucker) Please describe what is shown by this exhibit. A. This exhibit shows the additional costs that would result if the gas properties and gas business, including the sale of merchandise, of Gulf States Utilities Company were owned and operated by a separate company. Certain items of cost which would change due to such a separation are listed on the exhibit, together with the effect of each item on the gas company and on the Gulf States Utilities Company. The figures shown are on a monthly basis and it will be seen that the total increased cost to the gas company due to such operation would be $3,502 per month and the total increased cost to the Gulf States Utilities Company would be $4,371 per month. On an annual basis these figures would be $42,024 for the gas company and $52,452 for the Gulf States Utilities Company, or a total of $94,476. It will be noted that the exhibit contains supporting sheets as to each item mentioned thereon and I will discuss each item as it appears on the exhibit. [R. p. 3943] Schedule A is a detail of the additional costs to the gas company and to Gulf States Utilities Company growing out of executives' salaries and supervisory services. This item is based on the assumption that the services now secured from the mutual service company are no longer available and that the Gulf States Utilities Company

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GULF STATES GAS SYSTEM (Cont'd)

has secured similar services under a contract from some service organization such as Stone & Webster Service Corporation. For purposes of this comparison, I have used the charges set out in the Stone & Webster contract form to determine the costs of such services for both the Gulf States Utilities Company and for the independent gas company. The monthly cost to the gas company of this service is $1,048.39, based on annual revenues of the Gulf States Gas Department for the year ending December 31, 1940, and assumes $2,000,000 of investment in the new company. To this has been added the cost of two executives that will be required: one, a president, at $8,000 per year, and the other a secretary-treasurer at $5,000 per year, the monthly salaries of these two men being $1,083.33. The total cost of supervisory fees and officers is therefore $2,131.72 monthly to the independent gas company. The Gas Department now pays $796.26 per month for its portion of the salaries of the local executives. If the entire company, both gas and electric, employed Stone & Webster Service Corporation, the Gas Department's share of that fee would be $726.46 per [R. p. 3944] month. Adding these last two items together gives a figure of $1,522.72, which is $609 less than the $2,131.72 I just mentioned as the cost for these items for an independent gas company. This sheet also shows that the increase to the Gulf States Utilities Company would be $1,131.59 monthly. This figure is made up of the $796.26 now being paid by the Gas Department for its share of the salaries of local executives and $335.33 representing the difference between the amount the Electric and other departments would pay Stone & Webster Service Corporation alone and the portion assignable to these departments of a Stone & Webster fee for Gulf States Utilities Company as presently operated.

Schedule B shows the effect of the separation of the Gas Department from the Gulf States Utilities Company and the effect on the independent gas company arising from

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GULF STATES GAS SYSTEM (Cont'd)

the salaries of joint employees other than executives. There are 200 joint employees doing work for the Gas Department along with other departments of the Gulf States Utilities Company. These employees, their salaries, and the amount charged to the Gas Department in the month of July, 1941, are shown on the schedule. This organization was analyzed in the light of the Gas Department having been eliminated from the company's operations and it was found that 18 employees could be dropped from the pay roll of Gulf States Utilities Company. The continued cost to the Gulf States Utilities [R. p. 3945] Company which would have to be absorbed by other departments is equivalent to the amount now charged to the Gas Department for all joint employees, less the salaries of the employees which could be dropped from the pay roll. This figure is $1,940.23. It is estimated that 45 employees would be needed by the gas company to carry on the operations now performed by joint employees of the Gulf States Utilities Company. From the schedule it will be noted that the monthly pay roll for the 45 employees to be employed by the independent gas company will be $5,460, from which has been deducted the amount that the Gas Department of Gulf States Utilities Company has been paying for joint employees in the amount of $4,260.23, with a net increase to the independent gas company of $1,199.77. In making the study that I am discussing it was necessary to determine the organization required to operate an independent gas company. This matter was discussed with Mr. D. C. Barnes, Mr. T. P. Walker, President of Gulf States Utilities Company, and with Mr. H. C. Leonard, Vice-President of Gulf States Utilities Company, and many other department heads of the Company to determine the number and type of employees necessary. The question of salaries to be paid these men was given deep thought by all of those I have mentioned and they have all agreed with me that the salaries mentioned are conservative. It doesn't seem to me necessary to describe

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GULF STATES GAS SYSTEM (Cont'd)

the duties of the president and secretary-treasurer. [R. p. 3946] I will, however, discuss briefly the duties of the employees listed on this schedule.

Of course you will understand that an analysis was also required to determine what employees could be dispensed with by Gulf States Utilities Company should the separation take place, and the results of this study are shown on the schedule. The conclusions expressed in that study have also been discussed with the individuals I mentioned and they are in complete agreement with those conclusions.

Supervisor customers' accounting and credits, one. This employee would be responsible for all matters pertaining to meter reading, rendering of customers' bills, collections, posting of cash, approving credits, and customer contacts.

Billing clerk and combination billing clerk and comptometer operator, two. These two employees would machine bill and prove bills to all customers for gas service and merchandise.

Bookkeepers, two. These employees would break down earnings, cycle balance customers' accounts, and post cash.

Cashiers, two. These employees would receive payment for customers' bills and prepare daily bank deposits. They would also summarize daily collections and maintain petty cash fund.

Stenographer, one. This employee would do all stenographic work of the Customer Accounting, Credit and Collection [R. p. 3947] Departments.

Clerks, five. Four of these employees would write applications for service, handle duplicate bills, complaints, and accept deposits and make refunds, and the other clerk would handle the stencil and addressing machines.

Meter readers, three. These employees would read all meters in service.

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GULF STATES GAS SYSTEM (Cont'd)

Collector, one. This employee would collect delinquent accounts at the customers, homes or places of business.

Sales manager, one. This employee would be in charge of all company sales activities, including extensions of service to new customers, and the preparation and supervision of all sales campaigns.

Commercial and industrial salesman, one. This employee would take care of questions pertaining to large commercial and industrial customers and securing new business from customers of this type. He would also take care of extending the company's service to new territory whenever possible.

Floor salesman, one. This employee would call attention to merchandise and sell appliances to individuals calling at the company office.

Sales clerk and stenographer, two. These employees would type all necessary matter for the sales department, file and distribute sales material and catalogs and keep the miscellaneous records incident to sales campaigns, and relieve the [R. p. 3948] floor salesman.

Outside salesmen, five. These employees would solicit purchases of merchandise and make the necessary contacts to keep the merchandise sold in allotted territories. They would also solicit prospective customers for gas service in these territories.

Delivery man and porter, one. This employee would deliver merchandise and do general janitor work.

Demonstrator, one. This employee would demonstrate gas appliances, conduct cooking schools, and follow up sales to instruct purchasers in use of the appliance in order to obtain the best results in operation and economy.

Chief clerk, one. Under the supervision of the treasurer this employee would coordinate the accounting activities of the company, and, together with his assistants, prepare the many Federal, State, parish, and municipal reports and tax returns, maintain general insurance coverage, records

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GULF STATES GAS SYSTEM (Cont'd)

pertaining to employees' group insurance, and confidential pay roll data.

General clerk, one. The duties of this employee would be maintaining top books of the company, preparation of monthly financial and operating reports, classification to proper revenue and expense accounts of all receipts and disbursements, construction records, social security records other than confidential data, assisted whenever necessary by the [R. p. 3949] utility clerks.

Utility clerks, four. These four employees would be responsible for vouchering, recording cash receipts and disbursements, operating pay roll work, merchandise and general supply records, commission payments to salesmen and subsidiary records.

Stenographer, one. This employee would be secretary to executives, maintain the general contract file and type confidential data and also do stenographic work for the general accounting department.

Telephone operator, one. This employee's duties would consist of the operation of the telephone switchboard, the preparation of customers' bills for mailing, and the routing of incoming mail.

Combination telephone operator and clerk, one. This employee would act as relief switchboard operator and when not acting in this capacity, would assist the accounting department stenographer.

Purchasing and stores' employees, four. This group of employees consists of the purchasing agent, stenographer, storekeeper, and assistant storekeeper, whose duties would be to make all company purchases, do all stenographic work and filing in connection with same, receive and issue materials and supplies and maintain proper storage.

Auto mechanics, two; car washer and janitor, one. These [R. p. 3950] employees would maintain in good operating condition the automotive equipment of the company, and the janitor would also act as porter in the new building.

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GULF STATES GAS SYSTEM (Cont'd)

[R. p. 3951] Schedule C shows that the amount of rents now assigned to the Gas Department is $197.85. It is estimated that under independent operation the gas company would need approximately 5,300 square feet of space for its office and display room. This could be secured in Baton Rouge, together with air-conditioning, heating and lighting, for $550 monthly based on a proposal concerning a suitable location on Florida Street. The estimated cost of equipping this office with the necessary partitions, signs, and so forth, for use by the gas company is $5,000, which amortized over 10 years amounts to $41.67 per month, making the total cost of the rented office $591.67 monthly. The difference between this figure and the amount now charged to the Gas Department is $393.82, which represents the increased cost to the Gas Company under independent operation. As the Gulf States Utilities Company would continue to rent its present office building, the whole amount now assigned to the Gas Department, or $197.85, would continue as an expense to the Gulf States Company.

Schedule D shows the effect of the separation on costs pertaining to joint buildings, and joint use equipment. The independent company would build a new service building and invest in equipment at a total cost of $95,000. The schedule shows the estimated taxes, depreciation, and interest on the investment in the new building and equipment. The aggregate of these items is $930.01 a month and this compared with the [R. p. 3952] present amount being charged to the Gas Department is $524.52 more than that figure. The Gulf States Utilities Company, since the joint use buildings will be vacated and the joint use equipment left with it, will suffer increased costs due to these two items of $405.49.

Schedule E shows a detail of increased costs arising from maintenance of general structures and equipment. For the purposes of this estimate we have considered 1.5 percent on $80,000, which represents the estimated con-

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GULF STATES GAS SYSTEM (Cont'd)

struction cost of a service building and warehouse including land which the Gas Department would need if operated independently. Land has been included because of maintenance of driveways, spur tracks, fences and so forth. Maintenance of office equipment, and so forth, has been estimated at $25 monthly, or a total expense of $125 for the independent gas company. The amount now assigned to the Gas Department for this item is $113 monthly, and the increased cost to the Gas Company would be $12 per month. The amount presently assigned to the Gas Department for this item, or $113 monthly, would continue as an expense to Gulf States Utilities Company.

Schedule F shows a detail of certain taxes which would be affected by the separation of the Gas Department from the Gulf States Utilities Company. The total increased cost to the gas company for these taxes is $122.41 per month, and $97.61 represents the increased cost to Gulf States Utilities Company.

[R. p. 3953] Schedule G outlines the cost of additional automobiles which would be needed by an independent gas company. It is assumed that if the Gas Department is separated from the company the automobiles which are now assigned to that department would be sold to the independent company, and that no reduction could be made in the number of automobiles presently being used for joint operation of the Gas Department along with other departments of the Company. It is estimated that six additional automobiles would be needed by the gas company for executives, salesmen, deliverymen and general use, inasmuch as joint transportation facilities are now used for these operations. These six cars should cost approximately $50 monthly for operation and depreciation excluding pay roll, making a total of $300 per month. The amount now assigned to the Gas Department for use of joint automobiles is $271 excluding pay roll, resulting in an increased cost under independent operation of $29 per month to the new

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gas company. If the Gas Department were separated from the Company, some reduction in expense from joint automotive facilities would result, due to fewer miles traveled by these cars, and it is estimated that of the $271 now charged to the Gas Department about $175 would continue as an expense to the Gulf States Company.

Schedule H touches on advertising. It was estimated after studying the Company's advertising program that the requirement for an independent gas company for this item would be not [R. p. 3954] less than $300 per month, which is about $98 per month more than is now being charged to the Gas Department. The separation of the Gas Department from the Gulf States Utilities Company would create a new company in the community, and while for a time it may reap some benefit from the advertising of Gulf States Utilities Company because of its previous association, it would necessarily have to gradually establish itself in the community as a separate company, and to do this it would require more advertising than has been necessary under the combined situation. If the gas department were separated from the Company no reduction could be made in the amount of general advertising now included in the Company's program. Discontinuance of gas merchandise advertising would, however, reduce the total advertising appropriation and it is estimated that the increased cost to Gulf States Utilities Company resulting from the separation would amount to $72 per month.

Schedule I deals with donations. In the year 1940 approximately $630 was allocable to the gas department for donations in the Baton Rouge territory. It is estimated that there would be $1,500 annually expended by the independent gas company for donations and the difference between what has been allocated and the new figure, or $72.50 per month, will be the additional cost to the independent gas company. It is believed that the donations of the Gulf States Utilities Company might be reduced about $500

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GULF STATES GAS SYSTEM (Cont'd)

annually if the separation were made and [R. p. 3955] the estimate in this connection is $10.83 per month increased cost to Gulf States Utilities Company.

Schedule J has to do with legal expenses. The Company pays for this service on a retainer basis, and it is believed that the retainer could not be reduced if the gas activities were separated. The gas department now pays $88 a month for this service, which would have to be assumed by the other departments. On the other hand it is estimated that the new gas company would pay $166.67 a month, which is an increase of $78.67 a month.

Schedule K gives a detail of the increased cost of postage to the independent gas company and to the Gulf States Utilities Company. Almost all of the gas customers of the Company are also electric customers and these customers receive bills covering both gas and electric charges. If the gas department were separated from the Gulf States Utilities Company the increased cost of postage would be $159.38 to the gas company as shown on this schedule inasmuch as separate bills would then be mailed for gas service and for electric service. The amount of $198.62 presently being charged to the gas department for postage on bills mailed to combination customers, and including miscellaneous postage now charged to the gas department, would largely continue as an expense to Gulf States Utilities Company and it is estimated that $194.62 would continue as an expense to the other departments of the company.

[R. p. 3956] Schedule L deals with other office supplies and expenses. No reduction could be made in the number of bill forms, reminder notices, and envelopes which are now required to be sent to combination gas and electric customers, and these items of expense would have to be duplicated if the gas department were operated by an independent company. This item amounts to $41.25 monthly increased cost to the gas company. There are numerous other small items to which no consideration was given.

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GULF STATES GAS SYSTEM (Cont'd)

An analysis, however, would undoubtedly indicate some increased cost to the gas company and continuing cost to Gulf States Utilities Company.

Schedule M is a detail of the effect of charging the independent gas company for electric service at the published rates of the Company amounting to $183 monthly, as compared with $75.48 now assigned to the gas department. This will increase the cost to the new company by $107.52 monthly and will increase net revenues of Gulf States Utilities Company by the same amount.

Schedule N sets out the additional cost to the Gulf States Utilities Company for gas service furnished at the published rates of the gas company as compared with the costs now assigned to departments other than gas. This schedule shows that separation of the gas department from the Company's operations would result in an increased cost to the Gulf States Utilities Company for this item in the amount of $35.04 monthly, [R. p. 3957] and a corresponding increase in net revenues of the independent gas company in the same amount.

Schedule O shows the cost to an independent gas company of suitable telephone facilities for a company this size. Monthly rental of such facilities is estimated at $141.55, which estimate was furnished by the local telephone company. The amount presently assigned to the gas department for this service is $52.08 monthly, the difference of $89.47 representing an increased cost to the gas company. If the gas department were separated from the company it might be possible to eliminate two trunk lines and eighteen stations now connected to the Company's PBX switchboard. This would result in a reduction in the Gulf States Utilities Company's telephone service charge of $35.56 per month which amount subtracted from the charges presently assigned to the gas department would result in an increased cost to Gulf States Utilities Company of $16.52.

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H. V. Faber—Direct Examination (Cont.)

GULF STATES GAS SYSTEM (Cont'd)

Q. Mr. Faber, are there any items of cost other than those you have mentioned which would be affected if the Gas Department of Gulf States Utilities Company were operated as an independent company? A. Yes, there are quite a number of expenses other than those I have mentioned which would be increased by the separation I have been discussing. These costs have not been taken into consideration in the analysis which I made because, while [R. p. 3958] the increased costs may amount to a considerable sum in the aggregate, the individual expenses are not particularly large and would be tedious to analyze. Some of the miscellaneous costs not considered are insurance, employees' welfare, employees' expense accounts, automobile parking space, and so forth. You will understand of course that in making the analysis these items and many others were individually considered to determine whether any change in expense would result and which direction it would take. I have been unable to find any items of expense which would be smaller under independent operation than under joint operation. Another factor which would have a bearing on the operation of the gas department as an independent company is the cost of money. Since the new gas company would be much smaller than the Gulf States Utilities Company, it is almost certain that the cost of money to the new company would be substantially higher than that of the Gulf States Utilities Company. This item was not taken into consideration, however, because the amount of such increase in cost is rather indefinite.

Q. Mr. Faber, in your opinion as an expert utility accountant, what are the total economies realized from operating the Gas Department in combination with the electric system of Gulf States Utilities Company which will be lost if the Gas Department is operated as an independent company? A. The total economies which will be lost if the Gas [R. p. 3959] Department is operated as an independent company are $94,476 per year.

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[R. p. 2420] ROY S. NELSON,

a witness called on behalf of the Respondent, being first duly sworn was examined and testified as follows:

Direct Examination

Q. (By Mr. Tucker) Please state your name, residence and occupation. A. Roy S. Nelson; residence address 4700 Hastings Street, El Paso, Texas; business address Martin Building, 213-15 North Stanton Street, El Paso, Texas. I am President of El Paso Electric Company (Texas) and of El Paso and Juarez Traction Company.

* * * * *

[R. p. 2423] Q. (By Mr. Tucker) Will you briefly describe your educational background and business experience as an engineer and utility operator? A. I was graduated from Williamson Free School of Mechanical Trades in 1915 as an operating engineer.

Q. Is that Williamson Free School of Mechanical Trades in Pennsylvania? A. Yes, at Williamson, Pennsylvania.

Q. Go ahead. A. Immediately after graduation I entered the employ of Blackstone Valley Gas and Electric Company as switchboard operator and office engineer. In the spring of 1917 I was transferred by Stone & Webster, Inc., to Middletown, Connecticut, as power station engineer, and after working in this capacity for several months, was again transferred to Ponce, Puerto Rico, as power station engineer for Ponce Electric Company. I worked first as operating engineer and later as chief power station engineer [R. p. 2424] of this company until December of 1921, except for approximately four months spent in San Juan, Puerto Rico, in an officers' training camp and as a commissioned army officer until the Armistice of November, 1918.

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Roy S. Nelson—Direct Examination (Cont.)

EL PASO TRANSPORTATION (Cont'd)

In December, 1921, I was transferred by Stone & Webster to the Eastern Texas Electric Company, as chief engineer of their power station in Port Arthur, Texas, which position I held until June 1923, when I was transferred to Kingston, Jamaica, British West Indies, as chief engineer of the Jamaica Public Service Company, Ltd.; I was later appointed general superintendent of that company, which position I held until the spring of 1930, when I was transferred to Virginia Electric and Power Company in Richmond, Virginia, as general manager of the Electric Department of the Richmond Division of that company.

In the spring of 1931 I was transferred to Baton Rouge, Louisiana, as President of the Baton Rouge Electric Company and President of the Louisiana Steam Generating Corporation. I held these positions until June of 1936, when I was transferred to El Paso, Texas, as President of El Paso Electric Company (Texas) and President of El Paso and Juarez Traction Company, which positions I hold at the present time.

My duties in El Pasco prior to December 30, 1940, included supervision of the operations of the Mesilla Valley Electric Company as they were coordinated in the operations of the El Paso Electric Company system. On December 30, 1940, the [R. p. 2425] properties of Mesilla Valley Electric Company were acquired by El Paso Electric Company (Texas).

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[R. p. 2425] Q. (By Mr. Tucker) Please describe the business conducted by the El Paso Electric Company system. A. The El Paso Electric Company system is comprised of the properties of El Paso Electric Company (Texas) and the El Paso and Juarez Traction Company. All of the common stock of El Paso Electric Company (Texas) and all of the capital stock of El Paso and Juarez Traction Company are owned by El Paso Electric Company (Delaware). The operation of these properties is coordinated under my direction.

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BLEED THROUGH– POOR COPY

Roy S. Nelson—Direct Examination (Cont.)

EL PASO TRANSPORTATION (Cont'd)

[R. p. 2433] El Paso Electric Company (Texas) owns and operates a coordinated street railway and bus transportation system in [R. p. 2434] the City of El Paso which connects with the street railway system which I have just mentioned of the El Paso and Juarez Traction Company in Juarez, Mexico, and El Paso Electric Company (Texas) also conducts the operations of the El Paso and Juarez Traction Company railway system under an operating contract between the two companies. El Paso Electric Company (Texas) owns and operates the American part of the two international toll bridges across the Rio Grande River between El Paso and Juarez, and operates under a contract the Mexican part of said bridges which are owned by the El Paso and Juarez Traction Company.

Q. Do you have with you in exhibit form copies of the contract between El Paso Electric Company (Texas) and El Paso and Juarez Traction Company, which you have just mentioned? A. Yes.

Q. Were these copies prepared under your supervision and do you believe them to be accurate? A. Yes.

Mr. Tucker: I would like to have these marked for identification and I offer them in evidence as Engineers' Exhibit No. 129.

The Examiner: The contract is so admitted.

(The document referred to was marked as Engineers' Exhibit No. 129 and was received in evidence.)

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[R. p. 2442] Q. Where does the transportation system operate? A. The system operates the entire street railway and bus business in El Paso, Texas; the street railway business in Juarez, Mexico; and two toll bridges across the Rio Grande connecting El Paso and Juarez.

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[R. p. 2452] Q. (By Mr. Tucker) Will you please give us the date of incorporation of El Paso Electric Company

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(Texas) and the purposes for which it was incorporated?
A. The El Paso Electric Railway Company was incorporated under the laws of the State of Texas on August 30, 1901, for the purpose of constructing, acquiring, maintaining and operating street and suburban railways within and near the city of El Paso, Texas, for the transportation of passengers. The charter was subsequently amended on January 26, 1905, to include the supplying and selling of electric light and power to the public and municipalities, so long as the company used electricity as a motive power for the operation of its lines, and to that end to acquire or otherwise provide the necessary appliances therefor.

Subsequently, on June 23, 1925, the name of the corporation was changed to El Paso Electric Company and is commonly referred to as El Paso Electric Company (Texas) to distinguish it from the company of the same name organized under the laws of Delaware which is its parent company.

Under date of February 26, 1934, the charter was further amended so as to give the corporation the power to acquire, maintain and operate motor buses for the purpose of carrying passengers for hire on the public roads, streets, plazas, alleys [R. p. 2453] and highways within the corporate limits of any incorporated cities or towns and on the public roads and highways within five miles of the corporate limits of any such incorporated cities or towns, and the limitations contained in the first amendment to the charter on January 26, 1905, permitting the company to sell electric light and power only so long as it used electricity as the motive power for the operation of its street railway lines, was stricken out so that, as amended, it had power to supply and sell electric light and power to the public and municipalities, and to that end to acquire or otherwise provide the necessary power and appliances therefor, without restriction.

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EL PASO TRANSPORTATION (Cont'd)

Q. Did the El Paso Electric Company (Texas) acquire the properties of any other corporation? A. Yes. In February 1902 the company acquired the street railway property of the El Paso and Juarez Traction Company located in the City of El Paso, and also the American portion of the Stanton Street international bridge. It also acquired, at this time, the street railway property of the Santa Fe Street Railway Company and the American portion of the Santa Fe Street International bridge.

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ROY S. NELSON

Further Direct Examination

[R. p. 2576] Q. (By Mr. Tucker) Mr. Nelson, do you have with you in exhibit form a chart showing the organization of the El Paso Electric Company system? A. Yes.

Q. Was this prepared under your supervision? A. Yes.

Q. Do you believe it to be correct? A. Yes, with the exception that about a month ago and after the chart was prepared the office of Assistant General Superintendent was abolished in the Operating Department of the Transportation System so that at the present time superintendents of each of the operating and bridge sections report directly to the General Superintendent of the Transportation Division.

Mr. Tucker: I would like to have this marked for identi- [R. p. 2577] fication as Engineers' Exhibit No. 137.

The Examiner: It may be so marked.

(The document referred to was marked Engineers Exhibit 137 for identification.)

Q. (By Mr. Tucker) Will you comment on this chart? A. It can be noted from the chart that there are five main divisions in the El Paso Electric Company system organization, namely, the electric division, the transportation

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EL PASO TRANSPORTATION (Cont'd)

division, the accounting division, the new business division, and the Mesilla Valley division. There is no separate organization for El Paso & Juarez Traction Company. This company has no employees, all of its work being handled by El Paso Electric Company (Texas) under the operating contract dated January 3, 1911, Engineers Exhibit 129. All of these divisions are under my supervision as president.

* * * * *

[R. p. 2580] Q. Turning your attention now to the transportation division, what are the subdivisions of this division? A. The transportation division consists of the track and overhead department, mechanical department, claim department and operating department.

Q. What is the personnel of the track and overhead department, and its principal functions? A. The personnel of the track and overhead department varies from day to day. This department is in charge of a superintendent who is not only responsible for the maintenance of the street railway track and overhead, but also supervises crews of unskilled workmen engaged on new construction [R. p. 2581] or maintenance work of various kinds on different properties of the system.

Q. Describe briefly the personnel and functions of the mechanical department. A. The mechanical department is divided into the railway section and bus section. The foreman of the railway section is responsible for maintenance and repair work to all street railway rolling stock, and the foreman of the bus section is likewise responsible for the maintenance of all bus equipment.

The mechanical department is in charge of a superintendent with a personnel consisting of approximately thirty-five employees, made up of the foreman of the railway section, and necessary machinists, carpenters, painters and their respective helpers, and the foreman of the bus section with his bus mechanics and helpers.

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Roy S. Nelson—Direct Examination (Cont.)

EL PASO TRANSPORTATION (Cont'd)

Q. You also mentioned the claim department. Does this department handle merely transportation claims? A. No. In the claim department we have a claim agent and an assistant claim agent who is also the system safety engineer. These two men are experienced in claim, accident and safety work, and they handle this type of work for the entire system.

Q. Describe briefly the operating department. A. The operating department of the transportation [R. p. 2582] division is in charge of the superintendent, with other personnel consisting of approximately 125 men. This department is composed of an operating section responsible for the scheduling and daily operations of all transportation equipment, including street cars and buses. The bridge operating section, responsible for toll collections and general operations of the two International bridges of the system is in charge of a bridge superintendent who reports directly to the General Superintendent.

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[R. p. 2586] Q. Will you please comment on the joint use of personnel between the electric and transportation divisions? A. Much of the operating and maintenance work of the electric and transportation divisions is quite similar, and it is logical that in the interests of efficient operation important joint use of personnel can be made from time to time as well as joint use of equipment, such as distribution line trucks and railway overhead maintenance trucks.

The transportation division truck and overhead maintenance foreman, with his crews of unskilled laborers, does a great deal of maintenance and repair work to roads, buildings and other property of the electric division. In this way, not only the best interests of efficient operation are served, but a diversity of available work results, and by the joint use of personnel and the proper scheduling of work which it is not absolutely necessary to do at any par-

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ticular time we are able to avoid labor turnover which, to a considerable extent, gives our employees a sense of security in their jobs which would not otherwise be obtained.

With regard to the services of supervisory members of the system organization, the combination of the transportation operations with the electric operations results in mutual advantages [R. p. 2587] accruing to each. This also applies to accounting work, purchasing, personnel, claim and safety work. The employment and proper placing of personnel in both divisions, and the transfer of experienced employees from one division to the other as opportunities arise for such transfers with mutual advantages to the divisions and the men involved, are of great importance.

Mr. Tucker: I would now like to offer the organization chart as Engineers Exhibit 137.

The Examiner: It is so admitted.

(Engineers Exhibit No. 137 was received in evidence.)

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[R. p. 2869] LEO F. YETMAN,

called as a witness on behalf of the Respondent, being first duly sworn, was examined and testified as follows:

Direct Examination

Q. (By Mr. Tucker) What is your name, business address, and position with the company? A. My name is Leo F. Yetman; my business address is 213-215 North Stanton Street, El Paso, Texas. I am treasurer of El Paso Electric Company (Texas) and of El Paso and Juarez Traction Company.

Mr. Tucker: I wish to state that I now propose to qualify Mr. Yeman as an expert utility accountant.

Q. (By Mr. Tucker) Will you please state briefly your education and experience? A. In June, 1941, I was grad-

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nated from Hill College of Business Science, Woonsocket, Rhode Island.

I entered the employ of the Blackstone Valley Gas and Electric Company, Woonsocket Division, July 14, 1914, and handled various clerical assignments, including assistant to [R. p. 2870] the chief accountant.

In March of 1924, I was transferred to the Pawtucket division of the Blackstone Valley Gas and Electric Company and served as assistant chief clerk until February 1927, when I was transferred to the Woonsocket division as chief accountant.

In February of 1929, I was transferred to El Paso, Texas, as chief clerk of the El Paso Electric Company (Texas).

Later I was appointed comptroller of this company and of the El Paso and Juarez Traction Company, which positions I held until August 30, 1940, when I was elected treasurer of El Paso and Juarez Traction Company, and on September 26, 1940, I was elected treasurer of El Paso Electric Company (Texas).

Mr. Tucker: Does Commission counsel wish to examine Mr. Yetman as to his qualifications?

Mr. Lester: No, thank you.

* * * * *

[R. p. 2932] Q. (By Mr. Tucker) Do you have with you in exhibit form an income statement for the year 1940 for the entire El Paso system, including El Paso Electric Company (Texas), Mesilla Valley Electric Company, and El Paso and Juarez Traction Company, showing a breakdown between the electric department and the transportation department, including bridges, reflecting the results of the method of allocation of expense between the electric, transportation, and merchandise departments, which you have just outlined and which you have stated to be, in your opinion, the most equitable method of allocation? A. Yes.

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EL PASO TRANSPORTATION (Cont'd)

Q. Was this prepared under your supervision and do you believe it to be correct? A. Yes.

[R. p. 2933] Mr. Tucker: I would like to have this income statement marked for identification as Engineers' Exhibit No. 176 and to offer it in evidence.

The Examiner: Let it come in as Engineers' Exhibit No. 176.

(Engineers' Exhibit No. 176 was received in evidence.)

Q. (By Mr. Tucker) Referring to this last exhibit, please state the balance shown thereon for each of the electric and transportation departments for the year 1940 before interest and amortization and give us the amount of increase or decrease of each of such balances as compared with the amounts shown for 1940 on Engineers' Exhibit 175, being the breakdown of earnings as per books. A. The balance shown on this statement as per books—Engineers' Exhibit 175—for the electric department for the year 1940 was $919,534.03. The balance as per the revised statement is $918,679.51, a decrease under the balance shown in the statement before revision of $854.52. The balance shown on this statement as per books—Engineers' Exhibit 175—for the transportation department for the year 1940 was $77,797.59. The balance as per the revised statement is $81,975.26, an increase over the balance shown in the statement before revision of $4,177.67.

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[R. p. 2935] Q. Mr. Yetman, will you please give us the amount at which the total transportation property of El Paso Electric Company (Texas) and El Paso and Juarez Traction Company, including bus, rail and bridge, was carried on the books at December 31, 1940? A. The book value of that property was $2,423,651.

Q. Will you now give us as of December 31, 1940, the breakdown of this amount as between the street railway

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property, the bus property, and the bridge property, dividing this amount between the property in Texas and that belonging to the El Paso and Juarez Traction Company in Mexico? A. The total book value of the street railway property [R. p. 2936] of the El Paso Electric Company in El Paso, excluding the American halves of the two international bridges, is $1,519,449. The book value of its interest in the two bridges is $169,510. The book value of the property of the bus department of the El Paso Electric Company in El Paso is $295,906. The book value of the street railway property of the El Paso and Juarez Traction Company in Juarez, Mexico, is $269,276. The book value of its interest in the two bridges is $169,510.

* * * * *

[R. p. 2995] R. S. NELSON

Further Direct Examination

[R. p. 2996] Q. (By Mr. Tucker) Mr. Nelson, you have previously testified in these proceedings, have you not? A. Yes.

Q. Please briefly describe the early history of local transportation facilities in El Paso. A. El Paso, Texas, and Juarez, Mexico, are two adjacent cities, the one in the United States and the other in Mexico, being separated only by the Rio Grande River.

Mr. Fischgrund: Mr. Nelson, may I inquire as to whether this prepared statement, from which you are reading, was prepared in the same fashion that the previous prepared questions and answers were prepared?

The Witness: Yes, it was.

Mr. Fischgrund: Thank you.

Q. (By Mr. Tucker) Go ahead, Mr. Nelson. A. During the earlier years, prior to 1880, no means of transportation existed in either community, likewise no means of crossing between Mexico and the United States, other than a ferry

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EL PASO TRANSPORTATION (Cont'd)

which, due to the irregular flow of the river, was of little public use. In 1882 the first transportation [R. p. 2997] charter was granted by the City of El Paso to the El Paso Street Railroad Company to operate a mule-drawn street car system. In the same year a bridge was built across the Rio Grande River at Stanton Street, and in 1887 another company, the Santa Fe Street Railway Company, was chartered to operate a mule-car system from downtown El Paso to the end of Santa Fe Street where a new bridge was to be constructed, to connect with another mule-car system operated under foreign charter in the town of Paso del Norte on the Mexican side. Official records show that the Mexican town continued to be known as "Paso del Norte" until about 1890, when it was changed to "Juarez."

For the next 10 years, or until 1900, the four companies, two in El Paso and two in Juarez, operated with little indication of progress and development.

In 1900 the El Paso and Juarez Traction Company purchased the rights and equipment of the two Mexican railway companies operating in Juarez and the El Paso Street Railroad Company in El Paso, and in so doing acquired the Stanton Street bridge and the Mexican half of the Santa Fe Street bridge over the Rio Grande River between El Paso and Juarez. This company continued in operation, both in El Paso and Juarez, until 1902, when the El Paso Electric Railway Company was granted a permit to do business within the city of El Paso.

In February 1902 the El Paso Electric Railway Company [R. p. 2998] acquired the street railway property of the El Paso and Juarez Traction Company located in the city of El Paso and also the American portion of the Stanton Street international bridge. It also acquired at this time the street railway property of the Santa Fe Street Railway Company and the American portion of the Santa Fe Street international bridge.

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Roy S. Nelson—Direct Examination (Cont.)

EL PASO TRANSPORTATION (Cont'd)

The El Paso and Juarez Traction Company continued the street railway operations in Mexico.

Q. Do you have with you in exhibit form a map showing the early transportation system? A. Yes.

Q. Does this map accurately portray this early system? A. According to our records it does.

Mr. Tucker: I would like to have this map marked as Engineers' Exhibit No. 178 and received in evidence.

The Examiner: All right, it is admitted in evidence as Engineers' Exhibit No. 178.

(Engineers' Exhibit No. 178 was received in evidence.)

Q. (By Mr. Tucker) Will you describe briefly this map? A. This map shows the old mule-car transportation system as it existed just prior to 1902. The transportation facilities were quite limited, and served only the center of El Paso and Juarez with the exception of a residential line [R. p. 2999] which also provided transportation to an outlying park. No transportation was furnished to the scattered residential districts throughout the city.

While the map of El Paso does not include a district showing the city of Juarez on the south side of the river, the transportation system involved only one route which was a loop through the main part of Juarez connecting with the transportation loop through the main part of El Paso.

Q. Will you now give a brief history of the transportation facilities in El Paso and Juarez from the year 1902? A. When the El Paso Electric Railway Company took over the street railway operations in El Paso, it was faced with the major program of replacing the mule-car system with an electric railway system. This, of course, necessitated heavier street car equipment, and also the placement of street car tracks and the installation of electric distribution and trolley overhead system. On January 11, 1902, electric street cars began operation. The system rapidly

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EL PASO TRANSPORTATION (Cont'd)

expanded to meet the increased population and extending residential districts.

Q. Do you have with you in exhibit form a map showing the electric railway routes in 1905? A. Yes.

Q. Does this map portray accurately this early system? A. Yes.

[R. p. 3000] Mr. Tucker: I offer this map in evidence as Engineers' Exhibit No. 179.

The Examiner: Let it come in under that number.

(Engineers' Exhibit No. 179 was received in evidence.)

Q. (By Mr. Tucker) Will you briefly describe this map? A. This map shows the electric railway routes in the city of El Paso, Texas, and the city of Juarez, Mexico, after the electric street car system had been established in 1902. The map contains the location of the street car routes as they were operated in the year 1905. It will be noted that the lines fully cover the business districts, and also a substantial portion of the residential district as shown on the map. As was the case in the old mule-drawn days, the street car line included a loop between the city of El Paso and the city of Juarez. In addition to the Juarez loop, a short feeder line had been extended in the residential district in Juarez. One street car route replaced an old mule-drawn car route serving a residential district and amusement park located in the eastern part of El Paso.

One street car route extended through the northern residential section of the city serving a then-outlying district.

In order to provide transportation facilities for the old Fort Bliss Military Reservation, and the smelter works [R. p. 3001] located northwest of El Paso, a long street car line had been constructed and was part of the main transportation system.

Q. Will you continue your description of the transportation facilities after the year 1905? A. During the succeed-

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EL PASO TRANSPORTATION (Cont'd)

ing ten years real estate development proceeded at a rapid rate in many instances following rather than preceding the extension of car lines.

Increased suburban building resulted in the construction of approximately 12 miles of interurban line in 1913. It was during this period that Fort Bliss developed into a post of considerable importance. The military expedition into Mexico in 1916, and the World War definitely established Fort Bliss as a military post of first rank. As a result, in the period from 1915 to 1920, the transportation system underwent considerable expansion, reaching its peak in 1920.

Q. Do you have with you in exhibit form a map showing the transportation system as it existed in the year 1925? A. Yes.

Q. Does this map portray accurately the transportation system in 1925? A. Yes.

Mr. Tucker: I offer this map in evidence as Engineers' Exhibit No. 180.

The Examiner: It is admitted in evidence.

[R. p. 3002] (Engineers' Exhibit No. 180 was received in evidence.)

Q. (By Mr. Tucker) Will you describe briefly this map? A. This map shows the various routes of street car and interurban lines in the year 1925. It will be noted that the city of El Paso at that time covered a much larger district than it did in the early days as shown by the maps already in evidence. The transportation facilities, in order to properly serve the city and the outlying residential districts, had been expanded to cover a major portion of the city. In order to establish routes in the years after 1902 and up through 1905, additional car lines served the residential and commercial districts located in the southern part of the city, and a number had been developed in the residential districts in the northwest and northeast parts.

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EL PASO TRANSPORTATION (Cont'd)

The map shows the street car line serving the United States Cavalry Reservation at Fort Bliss. Also, shown in the eastern section of the city is an interurban line running toward the town of Ysleta, located a few miles east of El Paso.

Q. Will you please give a brief statement concerning the general trend of transportation in El Paso between 1925 and 1940? A. Until shortly before 1925 street car transportation [R. p. 3003] had very little competition in El Paso. However, in the succeeding years the private automobile in all its forms has become a serious competitor and changes in both method of operation and style of equipment have been necessary in order to retain public support of the transportation system.

When the "Jitney" made its appearance and operated along street car routes just prior to 1925, it caused great loss of revenue by picking up passengers ahead of street cars. The Jitneys paid little attention to any fixed routes, and no pretense was made toward liability protection for passengers. During periods of the day when riding fell off, Jitney operations were suspended. Over a year was required before public officials became sufficiently concerned to remedy this chaotic condition by appropriate regulatory ordinances.

Q. Does the city of El Paso contain any peculiarities of layout which create unusual problems in mass transportation? A. A glance at a map of the city of El Paso reveals the peculiar location of the business district, which results in its being hemmed in on one side by the Rio Grande River, permitting expansion of its residential development in only one general direction. Even then, a portion of the available district is bisected by a mountain range. All of this makes for long transportation hauls and practically precludes [R. p. 3004] any cross-town routing of street cars, so desirable for a flexible transportation system.

Q. Do you have with you in exhibit form a map showing the existing bus and street car routes as of 1940? A. Yes.

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EL PASO TRANSPORTATION (Cont'd)

Q. Does this map portray accurately the system as it exists at the present time? A. Yes, as to established permanent bus and street car routes. However, the map does not show any of the shuttle bus routes established within the past few months on a temporary basis to supply intermittent services as required for soldiers and workmen at Fort Bliss.

Mr. Tucker: I now offer this map in evidence as Engineers' Exhibit No. 181.

The Examiner: It is so admitted in evidence.

(Engineers' Exhibit No. 181 was received in evidence.)

Q. (By Mr. Tucker) Will you please describe this map? A. The dotted red lines on the map indicate street car routes and the solid red lines on the map indicate bus routes. It will be noted that since 1925 a number of bus routes have taken the place of previously existing street car routes, which were shown on the map, Engineers' Exhibit 180, showing the transportation system in 1925. It can be [R. p. 3005] seen from the map that El Paso now has more outlying residential districts, and that the transportation system has been enlarged somewhat to serve them. Among the more important additions shown on the map is the bus line serving Fort Bliss, which is in addition to the previously existing street car line. At the present time also and not shown on the map, shuttle bus services operate from cantonment areas which have been established at Logan Heights and Biggs Field, which are located north and northeast of Fort Bliss, connecting with our permanent Fort Bliss street car line service. In addition to this, a similar shuttle service not shown on the map provides transportation betweent another new cantonment area known as South Fort Bliss, and our permanent park car line.

It will also be noted that the street car line, as well as bus operation extending to the town of Ysleta, is not indicated on the map as this interurban line had been aban-

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EL PASO TRANSPORTATION (Cont'd)

doned. The map shows some minor changes in routing of bus lines as compared to previous routing of street car lines, and these changes of bus routes were made to better serve the districts involved. In all instances, changes in routing when busses were substituted for street cars were made only after our transportation personnel had conferred with city engineers and city planning representatives and always with the consent by resolution or ordinance of the city [R. p. 3006] authorities.

Q. Do you have with you in exhibit form a chart showing the miles of track at various periods from 1902 to 1940 and the miles of bus route from 1925 to 1940? A. Yes.

Q. Was this prepared under your supervision? A. Yes.

Q. Do you believe it to be correct? A. Yes.

Mr. Tucker: I now offer this chart in evidence as Engineers' Exhibit No. 182.

The Examiner: Let the chart come in under that exhibit number.

(Engineers' Exhibit No. 182 was received in evidence.)

Mr. Fischgrund: Off the record, please.

(Discussion off the record.)

Q. (By Mr. Tucker) What does the chart show? A. This chart shows the number of miles of railway track by 5-year periods from 1905 through 1935. It also shows the miles of track in the year 1902 and at the end of the year 1939, as well as the number of miles in January 1940, to reflect the conversion of an additional car line to busses on January 1. From the chart can be seen the rise of street [R. p. 3007] railway operation from 1902 to 1920 when the total number of miles of track reached its peak. From 1920 through 1939 it will be noted that there is a gradual decrease of the number of miles of street railway track to 18 miles. The curve also shows the miles of bus routes beginning just after the year 1925 through the year 1939, as well as the number

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of miles of route in January 1940, to reflect the latest addition to the bus system. This shows that miles of bus route have increased from the beginning in 1926 to approximately 33 as of January 1940, so that there are now more miles of bus route operated than there are miles of street railway.

As a result of the great increase in transportation requirements last fall because of the national defense program, it was necessary to make substantial increases in the services on various permanent street car and bus routes as well as to establish shuttle bus services on a very flexible basis in and around the Post, as has already been mentioned. However, this has not resulted in our increasing any railway track mileage or extending any permanent bus routes.

Q. Now, Mr. Nelson, referring to Exhibit No. 182,—that is Engineers' Exhibit No. 182,—does that chart comprehend all of the railways and the busses which are owned and are operated by El Paso Electric Company (Texas) and El Paso and Juarez Traction Company? A. Yes, it does.

[R. p. 3008] Q. Do you have with you in exhibit form a chart showing cars and busses owned from year 1905 to 1940? A. Yes.

Q. Was this prepared under your supervision? A. Yes.

Q. Do you believe it to be correct? A. Yes.

Mr. Tucker: At this time, I desire to offer the chart in evidence as Engineers' Exhibit No. 183.

The Examiner: It is so admitted.

(Engineers' Exhibit No. 183 was received in evidence.)

Q. (By Mr. Tucker) What does the chart show? A. This chart shows by 5-year periods the number of street cars operated between the years 1905 and 1940, and also the number in the year 1902. The curve indicates the sharp rise in the number of pieces of street car equipment between the years 1902 and 1920, when street car equipment reached a peak. From 1920 to the year 1940 it can be seen from the

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EL PASO TRANSPORTATION (Cont'd)

chart that there was a sharp decrease in the number of pieces of street car equipment operated by our system. Also shown on the curve are the number of busses operated between the years 1925 and 1940.

In 1940 it became necessary to purchase 10 street cars, [R. p. 3009] and second-hand units of a satisfactory size and type for our needs were secured and after complete rehabilitation placed in service to help supply the increased transportation requirements resulting from the national defense program. At the same time a number of new busses were purchased, as shown by the sharp rise in the curve, which indicates that as of the end of last year the system had 34 street cars and 36 busses in use. At the present time the system has 34 street cars and 47 busses in use.

Q. And "the system" as you used it on this exhibit, Engineers' Exhibit 183, and in your testimony, relates, again, to all of the street car and bus operations that are controlled by El Paso Electric Company of Delaware and in and around El Paso? A. Yes, it does.

Q. Will you please state what rate of fare is charged on the street cars and busses? A. The base fare on both the street cars and busses within the city limits of El Paso is 6 cents with universal transfers between all routes and types of equipment. The school fares as required by state law are one-half fare or 3 cents. There are special fares applicable to certain express and shuttle bus services from and to Fort Bliss, Biggs Field, and Logan Heights cantonment areas. In Juarez the fare is 12 centavos which at the present rate of exchange [R. p. 3010] is equivalent to approximately 2½ cents. However, no transfers are given between Mexico loop cars and other street cars and busses in El Paso unless the passenger has paid the equivalent of a full 6-cent American fare.

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EL PASO TRANSPORTATION (Cont'd)

[R. p. 3011] Q. (By Mr. Tucker) Will you please briefly describe the construction and operation of the International Bridges connecting El Paso, Texas, and Juarez, Mexico? A. Constructed under joint federal authority from the United States and from Mexico, the two bridges were built, the Stanton Street Bridge in 1882, and the Sante Fe Street bridge in 1889. As originally built, these were wooden structures supported on piles driven into the river bed. Built primarily for street car use, they were originally only wide enough to handle street cars and other horse-drawn vehicles. Increased vehicular and pedestrian travel later made necessary the widening of the vehicular space and addition of a ramp on the side of the bridge for pedestrian use. By 1924 these bridges became inadequate because of increased traffic and an increased number of federal employees of both countries for whom it was necessary to provide housing accommodations. Accordingly, the construction of a new reinforced concrete bridge at Stanton Street was begun in 1924 and completed in 1925. Five years later the wooden bridge at the foot of Santa Fe Street was also replaced with a steel and concrete structure. They were also designed to include ample facilities for all branches of government inspection service, both in the United States and in Mexico.

Q. Have you prepared as one exhibit copies of the Acts [R. p. 3012] of Congress, with reference to the construction and operation of the Stanton Street bridge and the Santa Fe Street bridge across the Rio Grande to Juarez, Mexico? A. Yes. I have copies of such Acts, dated, respectively, July 28, 1882, September 6, 1888, January 12, 1924, March 15, 1926, and February 3, 1928.

Q. Were these copies prepared under your supervision and do you believe them to be accurate? A. Yes.

Mr. Tucker: I offer in evidence the Acts of Congress authorizing construction of Stanton and Santa Fe Bridges.

The Examiner: Those Acts are received as Engineers' Public Service Exhibit No. 184.

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EL PASO TRANSPORTATION (Cont'd)

(The documents referred to were marked Engineers' Exhibit No. 184 and received in evidence.)

Q. (By Mr. Tucker) Under what authority is the operation of the International Bridges conducted? A. All operation of bridges is under federal statutes, both in the United States and in Mexico, being under the jurisdiction of the Secretary of War in the United States and under the Department of Communications and Public Works in Mexico. For a picture of the Stanton Street bridge, reference is made to Plate No. 165 in Engineers' Exhibit 134, already introduced in evidence.

[R. p. 3013] Q. Do you have a picture also of the Santa Fe Street bridge? A. No, but the Santa Fe Street bridge is of practically the same type of construction. The Santa Fe Street bridge is located about one-half mile upstream from the Stanton Street bridge.

Q. Please state what tolls are charged on the International Bridges? A. Traffic on the Stanton Street bridge is allowed only in the direction from El Paso to Juarez and the toll charge for pedestrians is two cents per person. The toll charge for passenger automobiles is 10 cents per automobile and driver, plus two cents additional for each other person. There are other toll charges fixed for trucks, bicycles, horseback riders, cattle, et cetera.

Traffic on the Santa Fe bridge for vehicles is allowed only in one direction from Juarez to El Paso. Pedestrians can move in either direction on this bridge. The toll for vehicles is 15 centavos for a car, driver and passenger, or the nearest equivalent in current rate of exchange. The pedestrian toll charge for traffic originating in Juarez is 2 centavos Mexican money, or 1¢ American money, while the toll charge for pedestrian traffic originating in El Paso is 2¢ American money, or its equivalent in Mexican money at the current rate of exchange. There are also additional tolls for trucks, bicycles, horseback riders, cattle, etc.

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EL PASO TRANSPORTATION (Cont'd)

Q. How is the investment in these two bridges carried in relation to the street railway property? A. It is carried in the railway plant account,—the El Paso Electric Company (Texas) owning the American half of each bridge and the El Paso and Juarez Traction Company owning the Mexican half of each bridge.

Q. When did the system first start bus operation? A. About 1926 our system began using motor buses to operate services required for expanding and developing districts to avoid further investment in track construction. This operation [R. p. 3014] was new and not in substitution for any existing service.

Q. When did the system first start substituting buses for street cars? A. The first conversion of an existing car line to buses was made in June, 1930, when the smelter line was abandoned and a number of buses purchased to start operation. During 1935 and 1936 with consideration being given to track conditions and paving work which would soon be needed on various lines, a number of important substitutions of buses for street cars were made.

On January 15, 1937 two street car lines, serving adjacent portions of older residential districts, were abandoned and one combined bus route substituted, affording a material decrease in operating expense, and an improved service which found public favor immediately.

In July, 1937 the Government Hill and the Manhattan lines were changed over to buses. These lines were the most important ones feeding outlying residential sections and, with some desirable revisions of routes which could easily be made with the bus service, the public response to the change was again good.

During the following two years with heavy expenditures for track maintenance necessary if street car operations were to be continued over rather unimportant but long routes, additional bus substitutions were made on the Beaumont [R. p. 3015] hospital line which serves the United

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EL PASO TRANSPORTATION (Cont'd)

States Army general hospital, on the Mesa line serving a residential district, and on the Second Ward line which serves a Mexican residental district near the downtown business section of El Paso. The development of a housing project in this latter district which would have necessitated the relocation of a considerable portion of the Second Ward line track was a controlling consideration in this substitution.

Q. Will you please state what changes were necessary to existing shops and buildings to accommodate your buses? A. When system bus operations were started in 1926 on a small scale, no suitable maintenance garage facilities were available and it became necessary to construct a modern bus garage in 1928, which was located on transportation property near the car barns. This garage was well equipped with inspection pits and machine tools as necessary for all types of maintenance and repair work. Due to the fact that El Paso is far removed from material supply centers, it is economical, if not necessary, for our system to have more special machine tool equipment for maintenance of bus engines and other major overhaul work than would ordinarily be required, to the end that a minimum of spare parts need be carried for protection in emergency conditions.

In addition, this enables us to operate with a minimum investment in spare bus units and a high average of approximately [R. p. 3016] 50,000 miles per year use per unit is operated.

Underground tanks of ample size to accommodate gasoline shipments in tank car lots are provided and in connection with this feature of the transportation operation, the electric division is also enabled to secure gasoline for its automotive equipment.

The layout of our bus maintenance garage, yard storage space, and service island with gasoline pumps and compressed air piping, is conveniently arranged and located

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EL PASO TRANSPORTATION (Cont'd)

near the car barns and transportation offices so that our bus and street car maintenance work is readily coordinated.

Photographs showing a part of the exterior and interior of the bus garage, the upholstering shop and the paint shop have been included in Engineers' Exhibit 134, which has already been introduced in evidence. I refer now to Plates Nos. 166, 167, and 168, respectively, in this exhibit.

Q. Do you have with you in exhibit form a chart showing investment of the transportation division? A. Yes.

Q. Was this prepared under your supervision? A. Yes.

Q. Do you believe it to be correct? A. Yes.

Mr. Tucker: At this time I offer in evidence this chart as Engineers Public Service Exhibit No. 185.

[R. p. 3017] The Examiner: It is admitted into evidence under that exhibit number.

(The document referred to was marked Engineers' Exhibit No. 185 and received in evidence.)

Q. (By Mr. Tucker) What does this chart show? A. This chart shows the total investment of the transportation system by five-year periods from the date on which electric street railway service started in 1902 until December 31, 1940, including El Paso and Juarez Traction Company. The figures shown represent the total investment in all transportation properties of the system including street cars and buses, the two international bridges, street car tracks and overhead lines, shops, barns, bus lines and all transportation buildings.

The increased development of the outlying residential sections during the period from 1902 to 1915, resulted in the rapid expansion of the system. This rapid growth, together with the introduction of paving in 1906, which materially increased the cost of track construction, raised the total investment to approximately two and a half million dollars by 1915.

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EL PASO TRANSPORTATION (Cont'd)

The rate of growth during the succeeding 10 years, while not as sharp, nevertheless continued upward, increasing by about $1,100,000. This represented new rolling stock, track [R. p. 3018] extensions and shop and transportation buildings, all added during the period of war activity. This also includes 40 light-weight safety cars purchased from 1918 to 1922, also the new Stanton Street International Bridge, the greater part of which construction took place in 1924.

Q. Will you please state briefly the principal changes occurring since 1925? A. Between 1925 and 1930 an interurban line to Ysleta was abandoned and written off. This rather heavy retirement was only partially offset by the purchase of over $100,000 of new street car equipment, the construction of a new bus garage in 1928 and the new International Bridge at Santa Fe Street in 1929.

Few changes occurred in the plant figure during the succeeding five years; however, in the six years from 1935 through 1940 a net reduction of approximately $850,000 was made in the plant investment. This was the result of the program of more rapid replacement of street cars with buses, and considering the added investment in new buses represents a gross write-off of approximately $1,300,000 during the period since 1925.

Q. Please discuss some of the problems that have arisen in connection with the substitution of bus service for street car service. A. One of the major problems in connection with our [R. p. 3019] change-over to bus service was the removal of tracks and repair of streets in a manner satisfactory to the mayor and city council of the city. When plans were being made for the change-over program which I have discussed, our system engineers and the management conferred with the municipal authorities and a procedure was agreed upon which would be mutually satisfactory.

Where tracks have been removed from paved streets, the streets have been re-paved with material similar to the existing street, and where unpaved streets have been in-

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EL PASO TRANSPORTATION (Cont'd)

volved, all ties, rails, and other track equipment have been completely removed and the roadways levelled and left in good condition.

In some sections, tracks have been removed from unpaved right of way adjacent to or in the middle of paved streets, and in these cases the entire street is finished with paving laid down by our system.

Throughout the negotiations with the municipal authorities with reference to the specifications as to the treatment of different street conditions, there was left to the decision of our system engineers the matter of removing tracks or resurfacing over them, and the types of materials to be used in street repairs. Our system agreed to be responsible for the condition of all street work done, for a period of five years from the date of its completion and acceptance by the mayor and city council on the recommendation of the city [R. p. 3020] engineer.

Q. Do you have with you photographs showing a section of track before and after removal of street car rails? A. Yes, such photographs were included in Engineers' Exhibit 134, which has already been introduced in evidence. I refer now to Plates Nos. 169 and 170 in this exhibit.

Q. Will you describe briefly what these photographs show? A. Plate No. 169 is a photograph showing Yandell Boulevard just prior to the removal of the street car tracks following abandonment. Plate No. 170 is a photograph showing this same street after the rails had been removed and the entire track surface paved over. The quality of paving which was installed has proven superior to that in the adjoining sections of the street not paved by us, with the result that auto traffic has a tendency to follow the paved-over track section.

This Boulevard is one of three principal arteries connecting the downtown business section of El Paso with important outlying commercial and residential districts.

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EL PASO TRANSPORTATION (Cont'd)

Q. Will you please discuss briefly the coordination of street car and bus operation? A. As bus service has been gradually substituted for street car service, there have been occasions when very important revisions of routes could be made, in some instances a new route being laid out to better serve the needs of districts [R. p. 3021] which had developed after car lines were located. In addition, these changes have resulted in improved coordination of our transportation services and have materially reduced the transfer requirements resulting in the improvement of traffic conditions. No increase was made in fares nor change in any transfer privileges in connection with any substitutions.

Q. In your system, are the operations of the transportation division and electric division carried on jointly? A. Yes. The transportation division and electric division are operated jointly.

For example, in the general office, the accounting work for both divisions is done. Supervision of the operations of both divisions is available from one group of supervisory officials.

There is also a joint use of storeroom facilities and personnel. Organization advantages are realized because employees may be transferred between the two divisions as changing conditions warrant.

Q. Will you please comment on the use of electricity generated by the electric division for street railway operations? A. The street railway system is operated on direct current that must be supplied by motor generators or converters.

The operation and maintenance of all railway converter equipment is done by the Electric Division personnel and all charges allocated to railway expense, eliminating necessity for [R. p. 3022] separate railway personnel.

Q. Is there any joint use of poles between the electric and railway divisions? A. Yes, the railway overhead wires are supported on electric poles in many instances and like-

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wise electric division lines, particularly service wires, are supported by railway poles wherever their location makes such joint use possible. The transportation division makes joint use of underground power ducts. During recent years when the electric division underground network system was reconstructed, the duct runs were made large enough to accommodate railway cables where this space was required. The resulting cost to the transportation division was much less than it would have been if necessary provision for this had been made independently.

Q. Is there any other joint use of equipment? A. Yes, a certain amount of joint use of system automobiles and trucks is practiced. The transportation division maintains a truck containing special hoisting equipment operated from railway current. This equipment was of material assistance to the electric division during the past seven years, in particular in the construction and rehabilitation work which has just been completed on its underground distribution network system in the downtown business district.

Q. What of the joint use of engineering personnel? A. Engineering work of the transportation division is [R. p. 3023] carried out by the system general engineer and his staff. An example of important service as rendered is that from time to time occasions arise where electrolysis surveys are necessary to determine the cause of and correct damage to underground water, gas and telephone mains which may be in the vicinity of street railway routes. This is a technical subject, requiring engineering study of an expert nature. Such work is done by the engineering division for the transportation division.

Q. Will you say something of the other joint use of personnel between the electric division and the transportation division? A. The overhead and track maintenance crews of unskilled laborers are used continuously, as conditions require in either one of the electric or transportation divisions. The electric division property, including buildings,

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roads, fences, et cetera, are kept in repair economically in this way. Also, the claim department renders services to both divisions, not only serving in the settlement of claims resulting from injuries to persons and damage to equipment, but the system assistant claim agent is also the system safety engineer and renders service to both divisions.

Q. Will you describe further the work of the safety engineer? A. While some effort was made to reduce accidents, injuries and damage costs, it was not until about 1919, due to [R. p. 3024] shortage of experienced operators resulting in rapid increase in number of accidents, that these efforts were intensified and various contests among employees and between departments were started and other rewards for outstanding records in reduction of accidents were made, such as picnics, banquets, et cetera. The claim department works with the various department heads in conducting these contests and gatherings. This safety program is considered an important part of all operations on the system.

New operators, after having gone through the prescribed training period and having been approved by the instructors, are routed to the claim department. There they are given further instructions in regard to their duties and responsibilities pertaining to safe operation, traffic regulations and safety rules, stressing the necessity of courtesy and service in their relationship with the public as system representatives.

Q. To what extent have the municipal authorities of the City of El Paso had authority over and controlled the abandonment of street railway operations and the substitutions therefor of buses which you have already described? A. Our street railway operations have always been carried on under franchises granted by the city council of El Paso. No abandonment of street railway lines, therefore, could be made without the permission of the city council [R. p. 3025]

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granted by ordinance; nor, in fact, can buses be operated in El Paso without similar consent. Accordingly, each time a street railway track has been abandoned and bus service substituted or bus service operated over new routes, ordinances have been passed by the city council giving the El Paso Electric Company permission to that end.

Q. Mr. Nelson, will you comment historically on the relation between the transportation business and the electric business of your system? A. The operations of the transportation system began prior to 1900 and the electric business was not begun until 1905. The initial venture of our system was, therefore, the street railway. The street railway in El Paso was electrified in 1902. In 1905 the company went into the electric light and power business through the acquisition of the electrical properties and business. The use of electricity for power for the operation of the street railway and for the supplying of light and power was the factor which in those early days brought these two businesses together. In the beginning, the main business was transportation and the electric business was incidental. Then the transportation service was the main source of revenue, whereas electric service was developmental.

It was not until 1915 that electric revenues overtook those derived from the transportation business. During the World War period the revenue from electric business exceeded [R. p. 3026] that of the transportation. However, in 1919 and 1920 the transportation gross revenue was again higher than that received from the electric division of the system. It was not until after 1920 that the electric portion of our system emerged as the more important phase of the total system operations.

Q. Have you with you a chart which traces the history of the gross revenues of the street railway department as contrasted with those of the electric department? A. Yes.

Q. Was this chart prepared under your supervision, and do you believe it to be accurate? A. Yes.

EL PASO TRANSPORTATION (Cont'd)

Mr. Tucker: I desire to offer in evidence this chart and ask to have it marked as Engineers Public Service Exhibit No. 186.

The Examiner: Let it come in under that number.

(The document referred to was marked Engineers Exhibit No. 186 and received in evidence.)

Q. (By Mr. Tucker) Will you continue your historical discussion? A. Beginning in 1920, the miles of railway track in the City of El Paso reached a peak and began gradually to decline. At that time there were about 64 miles of track, and this decline of mileage has been continued gradually until, at the [R. p. 3027] present time, there are only about 18 miles of equivalent single railway track operated. Beginning in 1927 bus operations were started on certain routes in the city to avoid the cost of constructing street railway lines and soon after buses began to be operated on various routes in the city, in substitution for street railway operation. This process of substitution has continued, until at the present time there are approximately 33 miles (one-half of round trips) of bus routes operated, as against approximately 18 miles of equivalent single railway track.

Q. Will you please discuss the trend in claim costs, in total amount and with relation to gross earnings during the past 20 years? A. A study of the record of the cost of street car and bus accidents in the 20-year period from 1920 to 1939, inclusive, shows that while the annual number of passengers carried was dropping about 50 per cent and the annual vehicle miles operated dropping about 72 per cent, the total expenditures for operating the claim department, including settlements, decreased from $58,718 to $14,292, or approximately 75 per cent. Despite the considerable decrease in total annual gross earnings, the ratio of the total claims expense to gross dropped from 6.9 per cent in 1920 to only 2.8 per cent in 1939.

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Roy S. Nelson—Direct Examination (Cont.)

EL PASO TRANSPORTATION (Cont'd)

The total annual claim expenditures of the electric division steadily dropped from $6,405 in 1920 to $3,740 in [R. p. 3028] 1939, a decrease of approximately 42 per cent, during which time the number of employees was steadily increasing. For the volume of claim work which the electric department has separately, it certainly could not maintain as efficient a claim department as the system now maintains.

Q. Mr. Nelson, will you state how many street railway lines or routes as distinguished from bus lines or routes are today operating in the Cities of El Paso and Juarez? A. There are three such street railway lines or routes.

Q. Will you describe these three railway lines for us? A. One is the Fort Bliss line, which runs from downtown El Paso to the Fort Bliss Military Reservation; this is approximately six and one-half miles in length. The second line is the Park car line, which runs from downtown El Paso almost due east through thickly populated residential and commercial Mexican districts to the city limits, passing, near the end of the line, an amusement park known as Washington Park, from which the line gets its name. The length of this route is approximately 4½ miles. The third line is the Mexico line, which operates over a loop route from downtown El Paso across the Rio Grande River into the City of Juarez, Mexico, over our Stanton Street bridge, makes a loop through Juarez and returns over the Santa Fe Street international bridge. The distance from the one end of this route in El Paso to the farthest point on the loop in Juarez is approximately 3½ miles. [R. p. 3029] A small branch line approximately 2½ miles long operates from the end of the loop line in Juarez to an abandoned race track in that city through a sparsely settled residential district. This is operated with one small car as a shuttle service from the loop to the race track and return.

Q. Have you made a study, Mr. Nelson, of the street railway operations in El Paso and Juarez in order to arrive

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EL PASO TRANSPORTATION (Cont'd)

at a judgment as to how long the street railway operations are likely to continue and if so give us the results of such study? A. I have given careful consideration to this matter and my best estimate of the future operations of the street railway in El Paso and Juarez is that operations of street cars on the Park line and the Mexico loop line will be continued for approximately 10 years, or until the expiration of our street railway franchise in El Paso in 1951. The Park line operates through a rather thickly settled residential and commercial section of the city which is old and well established, and through sections of the city in which the residents are predominantly of Mexican extraction. The streets over which the railway operates provide one of the main arteries for local as well as tourist traffic and the track throughout is in such condition that it should not require any unusual amount of maintenance or any reconstruction within the next 10 years. The Mexico loop line, operating between downtown El Paso and the City of Juarez, Mexico, likewise has track throughout which is in good [R. p. 3030] condition and should not require any unusual maintenance or new construction within the next 10 years. Neither of these lines have any sections which are unpaved. In the case of the branch line in Juarez, on which a small car operates a shuttle service between the loop in Juarez and an old race track, the statements above about the conditions of track and paving do not apply. This line is in a bad condition and we have been trying to secure approval from the Federal authorities in Mexico City for its abandonment for several years and as soon as this permission is secured the line will be abandoned. The traffic between El Paso and Juarez is very heavy and in general we have found from experience that the acceptance of street car service and patronage of it is better in the Mexican residential or commercial districts than would be the case through similar American sections. This is one of the principal reasons that

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Roy S. Nelson—Direct Examination (Cont.)

EL PASO TRANSPORTATION (Cont'd)

I anticipate the operation of the street cars on the Mexico and Park lines may be continued satisfactorily for from eight to 10 more years. In regard to the Fort Bliss line, this line is an old established one which operates through very thickly populated residential and commercial districts, especially the outer portion of it, and terminates in the Fort Bliss reservation. Since the increase in personnel at Fort Bliss, traffic on this line has been greatly increased and especially during weekends and pay days at the Fort, when [R. p. 3031] soldier travel is very heavy, it is our most important railway line. Last fall we purchased 10 second-hand street cars and rehabilitated them largely for use on this line to be able to handle the soldier traffic. In view of the fact that the number of men stationed at Fort Bliss has now reached 28,000, as compared with approximately 3,500 at this time last year, and in view of the further fact that a great new construction program has already been completed which is of a permanent nature involving housing facilities, hospitals, laundries, water supply developments, et cetera costing to date over $12,000,000 in additions constructed within the last nine months, it seems reasonable to assume that for many years the Fort Bliss post will continue to be a very much greater factor in the El Paso transportation situation than it has been heretofore. Not only have additional street cars been purchased and the service greatly increased on the Fort Bliss line, but bus services have also been established by our company to help serve the transportation requirements of the Fort Bliss and the new cantonment areas. Some of the new bus services run all the way into El Paso from the post and other routes have been established as shuttle bus services within the reservation feeding into the Fort Bliss line terminus. Unless present conditions change materially, it appears obvious from the foregoing that the Fort Bliss street car service will be continued for not less than three to five years as an important part of the El Paso [R. p. 3032] transportation operation.

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EL PASO TRANSPORTATION (Cont'd)

While we have been making bus substitutions for street car lines rather consistently during the past few years, especially where their operations were uneconomical or where we were faced with the necessity of heavy capital expenditures if they were to be continued, none of these conditions apply to the Fort Bliss line and we have no plans for any further substitution of buses for street car operation in El Paso at the present time.

[R. p. 3033] Q. Mr. Nelson, can you give us the book value of the spur from the Juarez loop to the race track with respect to which you said the company was attempting to make an abandonment? A. The book value of this spur is $35,024.23, covering both track and overhead. The shuttle car which runs on this line is in the property account of El Paso Electric Company (Texas) as is all the other rolling stock of the El Paso and Juarez Traction Company lines.

Q. Mr. Nelson, what proportion of the passengers of El Paso Electric Company (Texas) are carried by the street railway and what by bus, using 1940 figures? A. In 1940 the total passengers carried was 8,328,000, of which 4,077,000 were railway passengers and 4,251,000 were bus passengers. This is approximately 49 percent of the passengers carried by the railway and approximately 51 percent by bus.

Q. How many passengers were carried on the street cars of the associated company, El Paso and Juarez Traction Company, in the year 1940? A. $1,242,400.

Q. What were the railway car miles operated and the bus miles operated during the year 1940 by El Paso Electric Company (Texas)? A. The railway miles operated were 706,000 and the [R. p. 3034] bus miles operated 1,292,000. The railway miles operated were approximately 35 percent of the total and the bus miles 65 percent.

Q. What were the railway car miles operated by the associated company, El Paso and Juarez Traction Company, for the year 1940? A. 97,000 car miles.

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EL PASO TRANSPORTATION (Cont'd)

Q. Assuming that the Fort Bliss street car line is abandoned and buses substituted within three to five years as you have above indicated might be done, how much of the Fort Bliss line tracks would be abandoned? A. The only portion of the Fort Bliss line which would be abandoned and retired from the transportation plant account would be the outer section representing approximately 30,170 feet of equivalent single track, or approximately 5.7 miles, extending from the junction of Mytrle Avenue and Piedras Street to the terminus in the Fort Bliss Military reservation.

Q. Mr. Nelson, is the junction of Myrtle Avenue and Piedras Street to which you referred the point at which the outer section of the Fort Bliss line, so-called, joins what you have referred to as the Park Line? A. Yes, sir.

Q. And the remainder of the Fort Bliss line would have to continue to be used even though the outer section of the Fort Bliss line was abandoned in order to continue operations [R. p. 3035] on the Park Line? A. Yes, sir.

Q. What is the book value of this portion of the Fort Bliss line, that is, the portion of the Fort Bliss line from the junction of Myrtle Avenue and Piedras Street to the terminus of the Fort Bliss line in the Fort Bliss Military Reservation? A. $329,133.97.

Q. Mr. Nelson, have you made a study of the capital requirements of the railway division of the transportation department of your company, including El Paso Electric Company (Texas) and El Paso and Juarez Traction Company, for the next ten years—that is, until the expiration of the company's El Paso street railway franchise in 1951; if so, will you please give us the result of this study? A. Yes, we have given consideration to this subject and it is my best judgment that there will not be any capital requirements during this period. All of our track is in good condition, except the short branch line in Juarez, and we do not expect that there will be any demands made for capital expenditures on account of paving in sections which are

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EL PASO TRANSPORTATION (Cont'd)

now unpaved. I expect no need for replacement of any track to come up and as to rolling stock we have all of the street cars which can be operated effectively on the remaining trackage. The cars are all in good condition and will [R. p. 3036] require nothing but ordinary maintenance for the next ten years.

Q. Mr. Nelson, will you state whether or not in your judgment in the light of the company's past experience and its present situation and prospective business, the gross and net operating revenues for the transportation department, including El Paso Electric Company (Texas) and El Paso and Juarez Traction Company, combined for the year 1940, may be fairly regarded as a reasonable level for such gross and net operating revenues for the next ten years? A. In my judgment the 1940 figures may safely be regarded as a minimum average for the next ten years; indeed, if anything I think that the 1940 figures would be too conservative to be used as an estimate of the average annual figures for the next ten years. For the first five months of 1941 as compared with the first five months of 1940 the combined transportation operating revenues of the two companies were $369,289.78 as compared with $272,172.63, and the net operating revenues for the first five months of 1941, as per books, were $171,251.61 as compared with corresponding net operating revenues for the first five months of 1940 of $108,435.66. This amount is an increase of 35.7 percent in gross earnings and an increase of 57.9 percent in net earnings for the first five months of 1941 over the first five months of 1940. Practically all of this [R. p. 3037] increase has undoubtedly been due to the effect of the defense program in causing increased riding on our transportation system by soldiers, construction workers employed on new construction at the Fort, and on riding generally resulting from greatly improved business conditions. While there is, of course, some uncertainty as to how long the personnel stationed at Fort Bliss may remain

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at its present level of around 28,000 men, it is my judgment that regardless of what change may take place in the defense program Fort Bliss will continue as one of the largest permanent army bases in the United States and that the increased business which we will get in the future from this post will more than offset any decrease in general riding below the 1940 level. I base my judgment on opinions which have been repeatedly expressed by various government officials and on the permanent character of improvements which have been made at the Fort, as well as upon the strategic location of the Fort near the international boundary.

Q. Mr. Nelson, are there any items of expense borne by or chargeable to the transportion department of the El Paso system, including El Paso and Juarez Traction Company, assuming for this purpose that any proper expenses of jointly used facilities for the year 1940 have been reapportioned on the basis proposed in Engineers Exhibit 176, which would have to be borne by the electric department of El Paso Electric [R. p. 3038] Company if the system were required to divest itself of its entire transportation and bridge business, and, if so, will you please present the facts on this point? A. Yes. I have made a study of this problem and, undoubtedly, if the transportation and bridge properties of the system were to be disposed of, the electric operations would have to absorb substantial expenses which are now being borne by the transportation and bridge operations.

Payroll—Executive and Other Joint Personnel and Associated Payroll Taxes:

In order to arrive at an estimate of what these expenses would amount to, I first took a list of the executive, accounting, purchasing, advertising and publicity and first-aid and claim department employees and carefully considered in the case of each person who now is engaged in services to the transportation and bridge operations whether or not

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his services to the system could be dispensed with or whether he would have to be retained and the portion of his salary which had previously been charged to the transportation and bridge operations be absorbed by the electric operations. The estimated increase in annual payroll expenses to the electric operations, on the assumption that the system were required to dispose of its transportation and bridge properties, would, in my considered judgment, be $13,326.67. Associated with this item of $13,326.67 of payroll which would have to be [R. p. 3039] absorbed by the electric operations, are the State and Federal payroll taxes amounting to $513, making the total of this item of payroll, executive and other joint personnel and associated payroll taxes $13,839.67.

Jointly-Used Facilities:

The next item which I considered was certain jointly-used facilities and the increased cost to the electric operations if the transportation and bridge properties were to be disposed of.

In connection with the main offices of the system, which are rented in one office building in El Paso, allocations of the rent have heretofore been made as between the transportation and electric operations in proportion to gross earnings of the two departments. If the transportation and bridge properties were disposed of, two offices of this space could be released as they are now used solely by the General Superintendent of the transportation division, and, accordingly, the equivalent of the rental of these two offices would not have to be added to the expenses of the electric operations. Although the lease which our system presently has on all of the office space in the building which it uses has 3½ years to run, it seems reasonable to assume that arrangements could be made to get a credit on this office space, which would ordinarily rent for $35 per month or $420 per year. No other office space could be released for the reason that it [R., p. 3040] is occupied by employees

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EL PASO TRANSPORTATION (Cont'd)

whose continued duties with the electric operations would require the retention of the space. Accordingly, allocations of office rent amounting to $3,126.90, after giving effect to the possible credit I have mentioned, would have to be absorbed by the electric operations.

Summarizing the rent question, the total annual rent paid by the system in this office building is $16,890, of which $3,546.90 is now allocated to the transportation and bridge operations and of this latter amount only $420 could be eliminated. The balance of $3,126.90 would have to be absorbed by the electric department.

The only other jointly used building space is a small office and storeroom which is provided for the use of the night trouble-men of the electric division in the trainmen's club room building, which is otherwise a building used solely by the transportation operations. If the transportation and bridge properties were disposed of, this facility would have to be given up by the Electric Division and suitable accommodations provided for the night trouble-men elsewhere. While this service is charged at $300 per year to the Electric Division and credited to the Transportation Division in the allocation proposed in the plan of reapportionment heretofore filed with and now pending before the Securities and Exchange Commission, I think the item can be disregarded in the present study, as the Electric Division would simply be obliged to [R., p. 3041] provide some other accommodation for its trouble-men and probably could do so at very little additional expense.

Another facility of joint use is pole attachments and underground conduits used by the transportation division for its overhead and underground lines. In the proposed reapportionment of joint charges as contained in the plan of reapportionment heretofore filed with and pending before the Commission, the annual net charge to the transportation division on account of these facilities is $1,417. This is a proposed net charge after study of the use by the

electric operations of the railway poles as well as the use by the railway operations of the electric poles and underground conduits, and if the transportation and bridge properties of the system were disposed of, this amount of additional expense would have to be absorbed by the electric operations.

For lighting the rented space in the main office building 25 percent of $1,358.60 or $339.65 is allocated to the transportation department. In my judgment practically all of this, say $300, would have to be absorbed by the electric department.

As to telephones we have 23 extensions and all of these would be continued except one. The expense of the extensions allocated to the transportation and bridge departments is $72 per year. After taking out the one extension which could be dispensed with the amount becomes $57.48 and it is [R., p. 3042] my judgment that this amount would have to be absorbed by the electric department. In addition, there is a joint charge for switchboard facilities of approximately $1,323 per year. One trunk on the switchboard could be dropped. Deducting this from the charge would leave $1,179 which would, in my judgment, have to be absorbed by the electric department. Therefore, the total telephone expense which would have to be absorbed would be $1,236.48.

Summarizing the increased cost to the electric operations of jointly-used facilities, we find there would have to be so absorbed $3,126.90 of rent in the main office building; $1,417 of expense in respect of poles and underground conduits; $300 for lighting the space in the main office; and $1,263.48 in respect of telephone expense; or a total for all jointly-used facilities of $6,080.38.

Pensions:

Regarding pensions to employees, our system has been following a practice for many years of paying pensions to

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EL PASO TRANSPORTATION (Cont'd)

employees, who because of physical disability due to age or illness, are unable to continue their regular work, and these pensions are based on the employee's salary at the time of pensioning and his years of service. In 1940 twelve old employees of the transportation department were on pension and the total payments to them amounted to $7,270 during that year. The continued pension support of old employees is an [R. p. 3043] obligation of the system and no purchaser who might take over the transportation and bridge properties would assume this burden. Using the 1940 figures as an average, if these properties were to be disposed of, an annual expense of $7,270 would have to be absorbed by the electric operations for a considerable number of years. In my opinion, this is a very conservative estimated charge, because there are many old employees of the transportation department at the present time who have service records of 20 years or more and in the estimate I have made I have not included any amount to represent the increase in the present annual pension expense which will be caused as these old employees who are not yet on pension become incapacitated for further regular duties, and I feel sure that if the transportation and bridge properties were to be disposed of, the system would be obliged to give substantial recognition to this liability.

Contributions, Dues, et cetera:

Contributions of a general nature, such as to civic organizations for charitable and welfare work, and dues, et cetera, of a general nature, such as Chamber of Commerce dues, which are now allocated on the basis of gross revenues amounted in 1940 to $9,718.67 for our system. Of this amount, $2,040.92 was charged to the transportation department in 1940 and if the transportation and bridge properties of the system were to be disposed of, it is my judgment that this [R. p. 3044] $2,040.92 of expense would have to be absorbed by the electric operations.

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EL PASO TRANSPORTATION (Cont'd)

Compensation to Employees in Lieu of Free Passes:

Free passes are now given to the equivalent of 298 electric employees in the El Paso district. These passes give such employees the right to unlimited transportation on the company's street cars and buses. There are actually more than 298 electric employees receiving such passes but some of these employees are joint electric-transportation employees and if the time spent by joint employees in working for the transportation department is disregarded then there is an equivalent of 298 employees whose time is devoted wholly to the electric department.

It is my opinion that if the transportation department is disposed of, the compensation of the 298 electric employees will have to be increased by $1.25 per week per employee for fifty weeks out of the year, or $62.50 per year per employee. This increase in compensation will be necessary to offset the loss of free transportation.

The expense to the electric department in Engineers Exhibit 174 for free transportation furnished these 298 employees and the corresponding credit to the transportation department are merely book entries. But if the transportation department is disposed of and the free passes discontinued, there will be an actual annual increase in the expenses of the [R. p. 3045] electric department of $18,625 a year as a result of the wage adjustment which, in my best judgment, would have to be made. This $18,625 increase will be an out-of-pocket expense to the electric department and a very real burden on that department in place of the former book entry.

Gasoline Furnished the Electric Department:

There is a direct saving to the electric department of $700 a year in the purchase of gasoline as a result of purchasing such gasoline in bulk with gasoline for the transportation department. If the transportation department is

EL PASO TRANSPORTATION (Cont'd)

disposed of, the electric department will lose the benefit of this $700 a year saving in the purchase of gasoline and the expenses of the electric department will be increased by that amount each year.

Q. Mr. Nelson, taking into consideration now all of the items about which you testified which are now being borne by or are chargeable to the transportation department but which, in your judgment, would have to be absorbed by the electric department if the transportation department, including El Paso and Juarez Traction Company were disposed of, will you now give us a summary of said amounts and the total thereof? A. Payroll: Executive and other joint personnel and associated payroll taxes.... $13,839.67
Jointly used facilities..... 6,080.38
[R. p. 3046] Pensions ..... $ 7,270.00
Contributions, dues, et cetera..... 2,040.92
Compensation to employees in lieu of free passes 18,625.00
Increase in cost of gasoline..... 700.00
Total $48,555.97

Q. Mr. Nelson, assuming that the transportation and bridge properties, including El Paso and Juarez Traction Company, were to be disposed of, in your judgment, would a purchaser of such properties continue the street railway operations as at present, or would he convert the entire operation into a bus operation? A. In my opinion, no purchaser would take over and operate the street railway system, because he would undoubtedly prefer to operate a completely coordinated bus transportation system. This has been the general history during the past few years of all transportation operations which have been disposed of, so far as I know, and I see no reason why there should be any difference in El Paso.

EL PASO TRANSPORTATION (Cont'd)

Q. In case the entire operation were converted to bus operation, have you made a study to determine what would be the cost of such conversion, including the discharge of the obligations of El Paso Electric Company (Texas) and El Paso and Juarez Traction Company, under the franchises and including the cost of the necessary new buses and other equipment to [R. p. 3047] take the place of the existing street railway facilities, and, if so, please give us the results of such study? A. We estimate that if the transportation department were converted to all-bus operation, under existing conditions the cost would be $476,500, made up of three items, namely, first restoration of paving with credit for salvage from cars, et cetera; second, the cost of new buses; and, third, the cost of additional garage facilities for those new buses. Taking up each of these items, my estimate is as follows:

Paving:

So far as paving is concerned, it is my judgment that the same practice of removing tracks and overhead and repairing streets would be followed as has been followed by the system during the past five years in conection with substitution of bus service for street car service on other lines.

The estimated net cost of track removal and paving is $45,000; from this should be deducted the estimated net salvage of cars and other property which would not be useful to the system or to the new operator, assuming that the new operator would buy the bridges or that they would be sold separately, in the amount of $3,500, leaving a balance of $41,500.

New buses:

We have carefully estimated the number, type and size of additional buses which would be required to supply the trans- [R. p. 3048] portation needs of El Paso and of Juarez if the street railway operations were to be

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EL PASO TRANSPORTATION (Cont'd)

abandoned. In my judgment this would require the following bus equipment:

Line	Number of Buses	Type of Buses	Estimated Cost
Fort Bliss	12	40 pas. transit	$144,000
Park	8	40 pas. transit	96,000
Mexico	10	40 pas. transit	120,000
Total			$360,000

Additional Garages:

Additional investment which would be required in the way of garage facilities for the operation and maintenance of these additional buses which would have to be purchased would be $75,000.

Q. What was the book value of the system bus property on May 31, 1941? A. $327,983.21. This, however, does not include $75,500 to cover a bus garage extension which is now being built and to cover approximate contract price of ten new buses which are now on order or partially delivered. Adding this amount to the book value as of May 31, 1941, the new book value figure for bus property at the present time becomes $403,483.21.

Q. Mr. Nelson, what is your judgment as to whether or not a purchaser of the transportation properties of El Paso Electric Company (Texas) and El Paso and Juarez Traction Company would desire to purchase the two international bridges? [R. p. 3049] A. In my judgment, any purchaser of the transportation properties would desire to purchase and operate the two international bridges.

Q. Will you please state your reason for such opinion? A. The transportation operations of our system are a most important factor in the daily activities of the two adjoining cities of El Paso, Texas, and Juarez, Mexico, and these operations could not be carried on as satisfactorily as they are now unless the owner and operator of the transportation

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EL PASO TRANSPORTATION (Cont'd)

services also owned and operated the toll bridges. The bridges constitute vital links in the transportation system and the transportation department would be at the mercy of any outside owner and operator as to charges for their use. Under separate ownership and operation, there would also be situations arising almost daily which would lead to friction and dissatisfaction between separate owners and operators of the bridges and transportation system. In particular, on the American end of the Santa Fe bridge, the United States maintains Customs, Immigration and Public Health offices as this bridge accommodates pedestrian travel in both directions as well as vehicular travel from Mexico to the United States. There are many times when traffic becomes very congested. No doubt, the United States Customs, Immigration and Public Health authorities would find it much more difficult to deal with two separate owners and operators of the bridge and transportation services [R. p. 3050] than they would with a single operator.

Q. You have just told us, Mr. Nelson, that it would cost $476,500 to convert the present street railway property to all buses. Will you now add to the new book value figure for bus properties at the present time of $403,483.21 that amount of $476,500 and the book value of bridges of $339,020 and give us the book value of the bus system properties on the basis of the conversion of the railway operations to all bus operation plus the book value of the bridges? A. $1,219,003.21.

Q. Mr. Nelson, have you made a study to determine the book value of the transportation and bridge properties of the system which would be used or useful to the electric department and which the system would desire to retain in the electric department if the transportation and bridge properties were disposed of? A. There would be no such property.

Q. Mr. Nelson, as a result of the studies which you made in connection with this matter, are you now prepared to

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EL PASO TRANSPORTATION (Cont'd)

state what, in your judgment, is the amount which would have to be charged off on the books of the El Paso Electric Company (Texas) and El Paso and Juarez Traction Company representing the railway and bridge properties of these companies if the transportation and bridge properties were disposed of at this time? [R. p. 3051] A. This amount as of May 31, 1941 would be $2,131,359.43, less whatever amount was realized on the sale of the transportation and bridge properties.

Q. Mr. Nelson, what is the maximum load of the transportation properties of the El Paso system, including El Paso and Juarez Traction Company, on the electric generating facilities of the El Paso Electric Company. A. We recently made a study of the characteristics of the street railway load in preparing a new proposed rate to be charged the railway division for D.C. operating current in accordance with the plan for reapportionment of expenses between the electric and transportation division which has been presented to and is now pending before the Securities and Exchange Commission. In calculating railway demands we used actual demands taken from demand charts secured in actual operation during March of this year. We found that the maximum D.C. railway peak occurred in the morning hours between 7:30 and 9:00 o'clock on every weekday except Saturday, on which day it occurred in the afternoon between 2:00 and 5:00 o'clock p.m. These peaks do not coincide with our annual system peak, which occurs between 5:00 and 7:00 p.m. during weekdays, not including Saturdays, in the winter months. We found the demand for the D.C. railway load which coincided with our system peak to be 686 Kva, whereas the maximum railway peak load at any time in our system amounts to approximately [R. p. 3052] 825 Kva.

Q. Mr. Nelson, what is the basis on which the transportation department is now and has for some years been charged for the electric energy furnished by the electric

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department to the transportation department for the operation of the street cars? A. D.C. current required for street railway operations has heretofore been charged to the transportation division on the basis of metered A.C. input to the motor generator sets, plus 7,500 Kwh per month as a constant for excitation, at power station production costs plus an allowance for transmission costs. The cost of such current on this basis to the transportation department for the year 1940 was 3.9 mills per Kwh.

Q. Did this charge include any amount representing carrying charges—that is, depreciation, taxes, insurance and interest? A. No.

Q. Are you familiar with the proposed new rate for D.C. service to be applied to all electric energy furnished by the electric department to the transportation department as included in the plan of reapportionment of expenses between departments filed with and now pending before the Commission; and, if so, please state how this rate was arrived at and what was its objective? A. In order to arrive at a proper rate for D.C. service [R. p. 3053] to the street railway operation, we first prepared a study of the undepreciated book investment in property which is provided by the electric division to serve this load, and allowed for fixed charges on this investment at 13½ percent to cover 7 percent for interest on investment, 2½ percent for depreciation and 4 percent for insurance and taxes, plus an item of $17,072 as the estimated production cost of 3,688,000 Kwh D.C., the estimated D.C. requirements of the railway for 1941, plus an item of $2,900, the estimated operating and maintenance costs of the motor generator units on an annual basis, plus an item of $400 representing 2 percent overhead on the last two items for general supervision. This gave a total of $40,562, or $.011 per Kwh, as the resulting rate for this service. When this study had been completed, we designed a two-part power rate, incorpo-

EL PASO TRANSPORTATION (Cont'd)

rating demand charges and energy charges, which would return a revenue to the electric division of approximately $.011 per Kwh D.C. For a copy of the details of the study made to determine the costs of providing this D.C. service, I refer to Exhibit I included in Engineers Exhibit 174.

Q. Will you state whether or not in your judgment the new rate is a fair rate for energy supplied by the electric department to the transportation department? A. In my judgment it is a fair rate.

Q. Mr. Nelson, will you state whether or not the electric [R. p. 3054] department would benefit if the capacity now utilized for supplying the railway load were released for other use by reason of the disposition of the transportation and bridge properties to a purchaser who would convert these operations into bus operation? A. On the basis of the proposed new rate to be charged the transportation department for D. C. service, carrying charges are included in the rate, and if the railway load were to be dropped from the electric system, it would have no effect other than that which would be caused by the loss of any other customer of similar size and load characteristics. Such a change would simply mean that the electric system would have approximately 686 Kva of additional capacity which it could try to sell to some other prospective customer. At the present rate of expansion of the system electric load it would not be very long before this decrease in load would be compensated for by the taking on of additional customers. In such case these new customers would pay the carrying charges on this capacity instead of having them paid as is proposed by the railway operations. Therefore, I see no benefit to the electric operations but in fact some loss to them would be occasioned until equivalent new load is obtained.

Q. Mr. Nelson, having in mind the fact that up to the present time it appears from the record that the transportation department has not been charged a rate for electric

EL PASO TRANSPORTATION (Cont'd)

energy which includes depreciation, interest and taxes, although in the rate proposed and included in the plan of reapportionment filed [R. p. 3055] with an pending before the Securities and Exchange Commission provision is made for such items, if the 686 Kva of capacity now used by the transportation department were released and sold to customers who paid a higher rate than that heretofore charged the transportation department, would that in any way affect your previous answer regarding benefit to the electric department? A. It would not affect my previous answer. Any customer desiring electric service now can secure it from our system. If any shortage of capacity should develop, we would simply add some capacity with similar carrying charges to those which are borne by our system now.

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LEO F. YETMAN

Cross Examination

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(By Mr. Fischgrund)

[R. p. 3078] Q. Do you have with you here the amount that was charged to the transportation department during 1940 for the time of joint employees of the transportation and electric departments? A. Yes, the figure is available.

Q. Could you tell me what it is? A. (Examining papers.) The total joint payroll was [R. p. 3079] approximately $120,880, of which sum $20,000-odd is charged to the transportation division.

Mr. Moore: Do you have the exact figure there?

The Witness: It is $120,880.

Mr. Tucker: What is the exact charge of the transportation?

The Witness: $20,750.52; the exact charge was $28,990.75.

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EL PASO TRANSPORTATION (Cont'd)

Mr. Tucker: That is what you wanted, isn't it; the 1940 charge before adjustment?

Mr. Fischgrund: I also wanted the 1940 charge after the adjustment.

Mr. Tucker: I don't think you have asked him for that.

The Witness: No, he has not.

Mr. Moore: The figure you have given is before the adjustment, is it not?

The Witness: That is correct.

Mr. Fischgrund: What was the amount after the adjustment, Mr. Yetman?

The Witness: $20,750.52.

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[R. p. 3084] Q. (By Mr. Fischgrund) How many joint employees are there between the electric and transportation departments? A. Approximately 44.

Q. Could you give me a breakdown as to the duties of each joint employee? A. There will be four in the executive group, 12 in the general group.

Q. What do you mean by "general"? A. The general accounting group.

Mr. Tucker: You say "general accounting group"?

The Witness: General accounting group, yes.

There would be three in the purchasing, six in the stenographic, three in the cashiering, two in the claim department.

Mr. Tucker: What?

The Witness: Two in the claim department, two in the advertising and publicity and the balance would be clerks of a miscellaneous nature.

Mr. Moore: Where are the executives and supervisory personnel coming in?

The Witness: I have already named the four executives and the other supervisory would fall in with that general 12.

[R. p. 3085] Mr. Tucker: I thought you said that was all accounting.

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EL PASO TRANSPORTATION (Cont'd)

The Witness: Well, the supervisory, that includes the chief clerk and the treasurer and the assistant chief clerk and supervisory employees in that same figure of 12.

Mr. Moore: Are they included in the 12?

The Witness: Yes, sir.

Mr. Moore: So there are really four executive and supervisory and eight general accounting.

The Witness: Yes, that might be termed to be correct.

By Mr. Fischgrund:

Q. You mean the four executives are included in the 12 which you referred to as in the general accounting group? A. There are four other supervising employees included in the 12.

Mr. Moore: That leaves 16 of a general miscellaneous nature, doesn't it?

The Witness: Yes, sir, I would say that that is the figure.

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ROY S. NELSON

Cross Examination

(By Mr. Fischgrund)

[R. p. 3141] Q. Back in 1905 and 1910, isn't it true that the electric load of the railway was necessary at that time for the economical generation and sale of electricity by any electric utility? A. I don't know, I imagine that in case of the El Paso Electric Company it was a substantial factor.

Q. At that time, the railway used over 50 percent of the electric load? A. I don't know.

Q. But you know that the railway load before the last war was a very, very substantial part of the electric load? A. I am sure it was, but I haven't made any investigation on that point whatever. The El Paso Electric Company was originally—or the predecessor company was originally

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EL PASO TRANSPORTATION (Cont'd)

in the transportation business before it acquired any electric light and power business.

Q. But that is not true today, that the railway makes up a substantial part of the electric load? A. It makes up about 800 kilowatts of the load. In proportion, it is a rather small portion of the total load.

Mr. Moore: Out of about 30,000?

The Witness: That is 686 out of about 30,000.

* * * * *

[R. p. 3152] By Mr. Fischgrund:

Q. Mr. Nelson, referring to your testimony with respect to the expenses which, in your opinion, would be borne by the electric department if the transportation department were disposed of; in computing such expenses, do you use as the basis of inter-departmental expenses as reallocated by Mr. Yetman or as shown on the books of the company? A. As reallocated.

Q. If the company disposes of the transportation department, in your opinion, it would not be necessary for the electric department to retain all of the joint employees, would it? A. No, sir.

Q. In fact, it would not be necessary to retain more than about two-thirds of the joint employees? A. In my opinion, it would be necessary to retain all of them but two.

Q. Do you believe that all the time of the joint employees retained by the electric system on disposal of the transportation department would be necessary for the operation of the electric department? A. Yes, sir, all the time of those that were retained.

Q. It is due in part to the contemplated expansion of the electric system? [R. p. 3153] A. No, sir, it is due to the fact that we could not dispense with the services of any of the employees who at the present time are employed on joint work except two.

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EL PASO TRANSPORTATION (Cont'd)

Q. And all the time of these joint employees will be taken up in the electric system? A. Yes, sir.

Q. They will be fully occupied? A. Yes, sir.

Q. What would they be doing in place of the work that they do now for the transportation system? A. In the case of a number of them, the work that they do for transportation now consists of additional notations on a sheet of figures which they might be making out or additional notations on payroll vouchers or some records that have to be kept. I don't anticipate that there would be very much change in their duties or that there would be any slackening of the work that they would be required to do to a noticeable extent.

Q. To any extent to which they might slacken, it will be picked up in the contemplated expansion of the electric system? A. To the extent that there might be a slackening, they would not work quite so hard, but you cannot divide a man or a woman. In my opinion, you would have to retain all of these employees except two.

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DONALD C. BARNES

Re-direct Examination

[R. p. 3218] Q. (By Mr. Tucker) Mr. Barnes, is it a fact that you are the Donald C. Barnes who has previously testified in these proceedings? A. It is, and I am.

Q. Mr. Barnes, have you made a study including among other things consideration of the evidence produced in this case by Mr. Nelson and Mr. Yetman with respect to the expenses properly chargeable to the transportation department and future requirements of the railway division and your own personal knowledge of the transportation operations in El Paso conducted by El Paso Electric Company (Texas) and El Paso and Juarez Traction Company to determine the net annual increment cash accruing from such

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EL PASO TRANSPORTATION (Cont'd)

operations based on the level of 1940 earnings and the value of such business and the possible realization from its sale? If so, please present the results of this study at this time. A. I have prepared an analysis of the value to El Paso Electric Company (Delaware) and its subsidiaries of their transportation business if they are permitted to retain this business for the next ten years as compared with the amount which might reasonably be expected to be realized if they [R. p. 3219] undertook at this time to sell or otherwise dispose of their transportation properties and business.

Q. And you are presenting, are you not, in the form of an exhibit, the results of that study? A. I am.

Mr. Tucker: I would like this exhibit marked as Engineers' Exhibit No. 187, and I offer it in evidence.

The Examiner: The analysis which this witness presents is admitted as Engineers' Exhibit No. 187.

(Engineers' Exhibit No. 187 was received in evidence.)

Q. (By Mr. Tucker) Will you continue, Mr. Barnes. A. This study is prepared on the same basis as that to which I testified in connection with the transportation operations of Virginia Electric and Power Company. It shows the various items of annual increment cash available from transportation operations. The first is the gross income from such operations as shown in Engineers Exhibit 176, as testified to by Mr. Yetman in the amount of $82,000. Included in the deductions made by Mr. Yetman before arriving at this gross income is an accrual for railway and bridge depreciation in the amount of approximately $101,000. Of this amount approximately $12,000 is applicable to depreciation of bridges, and the remainder, $89,000, represents the portion [R. p. 3220] of the accrual applicable to the railway division. Mr. Nelson has testified that he has made a study of the capital requirements of the railway division for the next ten years and in his best judgment no capital expenditures will be required by the railway divi-

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EL PASO TRANSPORTATION (Cont'd)

sion during this period. He has also testified that in his judgment the Mexico Line and the Park Line will continue to operate street cars for approximately ten years but that the outer section of the remaining street railway line, namely, the Fort Bliss Line, will be abandoned and bus operations substituted in a period of from three to five years. He further testified that the estimated investment required for the substitution of busses on the Fort Bliss Line would be $144,000. I have, therefore, reduced the increment cash available from railway depreciation accrual by $14,000 annually to cover cash which will be required for replacement of busses as they wear out in the Fort Bliss Line operation. This leaves a net depreciation accrual available for return of capital in the amount of $75,000 per year. Mr. Nelson has testified that on the basis of the reallocation of expenses used by Mr. Yetman there would have to be absorbed by the electric department, if the transportation department were disposed of, an aggregate amount of $48,556 annually consisting of joint expenses and charges borne by the transportation operations which aggregate some $29,000 annually, which are not now included in [R. p. 3221] light and power expenses, and two items aggregating $19,325 which are now included in the electric department operating expenses. However, if this $29,000 of additional charges were imposed on the light and power operations it would effect a saving in Federal income taxes of some $9,000 annually based on a tax rate of 30 percent, which is the amount which the Company is using as a basis for its accrual in 1941. Therefore railway operations as long as they are continued are providing a net increment of cash from this source in the amount of $20,000 annually. The total annual increment cash from transportation operations based on the 1940 level of earnings is $177,000.

If the company continues to operate this business and if earnings continue at the 1940 level and assuming further

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a remaining life of railway operations on the Mexico and Park lines of ten years, the present worth at 6 percent of this annual cash income is $1,303,000. In addition, assuming that the transportation business is to be sold at the end of ten years on the basis which we estimate it would bring if sold today, its present worth is $505,000 or a total present worth of the transportation business to El Paso Electric Company (Delaware) and its subsidiaries of $1,808,000.

The second page of the exhibit shows the computation of the estimated sales realization if the business is sold in 1941.

[R. p. 3222] The present net operating revenue before depreciation as determined by Mr. Yetman is approximately $207,000 per year. Based on my knowledge and observation of the market value of transportation properties such earnings are valued at approximately six times where service is furnished by bus operation. While I have no information as to the market value of the toll bridge business, in view of the hazards incident to the operations of these two bridges it is my opinion that these bridge earnings should be valued on a basis fairly comparable with bus earnings. Applying this factor to the El Paso earnings gives a valuation of $1,242,000 for a system completely equipped with busses. Mr. Nelson has testified that the estimated cost of converting the present railway operations to bus would be as follows:

Busses	$360,000
Garage	75,000
Abandonment expense net	42,000
Total	$477,000

With these out-of-pocket costs aggregating some $477,000 the estimated market value of the present transportation operations would, therefore, be $765,000. In addition, a purchaser of the transportation properties would take over

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EL PASO TRANSPORTATION (Cont'd)

El Paso and Juarez Traction Company as a corporation and El Paso Electric Company (Delaware) would receive an additional amount for net current assets which, based on the book value of such [R. p. 3223] net assets at December 31, 1940, would amount to $137,000. Thus, the estimated market value of these transportation operations and assets is $902,000.

In order to determine what, if any, savings could be made in Federal income taxes if the property were sold on this basis in 1941 I analyzed first the results of the sale of El Paso and Juarez Traction Company and have allocated as the value of that portion of the transportation property, the estimated sales price for the total transportation operations in the ratio of the net earnings before depreciation from El Paso and Juarez transportation operations to those from the transportation operations as a whole. This gives a value of $174,000 for the transportation property of El Paso and Juarez Traction Company, which with the net current assets in the amount of $137,000 makes a total market value for the securities of El Paso and Juarez Traction Company of $311,000. This is substantially the tax cost of these assets to El Paso Electric Company (Delaware) so that no taxable gain or loss would result from such a transaction on this basis. A study of the tax base of the transportation assets of El Paso Electric Company (Texas) shows this base to be $771,000. The portion of the sale price allocated to these assets on the basis just described gives an estimated sales price of $591,000. The company would, therefore, sustain a tax loss of $180,000 in the event of sale on this basis. The [R. p. 3224] resultant tax saving based on a tax rate of 30 percent, which as I have stated is the amount the company is now using to determine its tax liability in 1941, would be $54,000. Thus, the estimated aggregate sales realization is $956,000.

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EL PASO TRANSPORTATION (Cont'd)

To summarize, this exhibit shows that the present worth of the transportation business of El Paso Electric Company (Delaware) and its subsidiaries, if they continue to operate it for ten years on the 1940 level of earnings, is $1,808,000 as compared with an estimated sales realization if sold on the basis of its estimated market value, and giving effect to Federal tax savings, of $956,000. The item of $1,808,000 predicated as it is on 1940 conditions continuing for ten years, is subject to variation, up or down, depending on what conditions are in the future. The margin of difference between that amount and the estimated sales realization is so great that in my opinion no foreseeable variation could wipe it out but may, in fact, increase it.

Q. Mr. Barnes, it appears from Mr. Yetman's testimony that as of December 31, 1940, the book value of the transportation property, railway, bus, and bridge combined, was $2,423,651. Based on Engineer's Exhibit 187, with particular reference to the items shown thereon as annual increment cash from transportation operations available in the amount of $177,000 based on the level of 1940 operations, within what period of time would the El Paso system recover the amount [R., p. 3225] at which the transportation property was carried on the books as of December 31, 1940?

A. If this annual increment cash from transportation operations of $177,000 is invested in light and power operations of the system and earns a 6 percent return, it would amount to the total book value of the transportation property in 10.3 years. In other words, the amount of annuity of $177,000 at 6 percent interest would be $2,423,651 in 10.3 years.

Q. Mr. Barnes, on pages 2993 and 2994 of the transcript of the evidence, Mr. Lester of counsel for the Commission requested the Respondent in these proceedings to produce true copies of all monthly bills of the Engineers Public Service Company to El Paso Electric Company and/or El

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EL PASO TRANSPORTATION (Cont'd)

Paso and Juarez Traction Company, commencing with the month of March, 1940, through June, 1941.

Although Mr. Lester apparently said, according to the transcript, the Engineers Public Service Company, I assume that he intended the Engineers Public Service Company, Inc., the mutual service company.

Mr. Lester: That is correct.

• • • • •

D. C. BARNES

Cross Examination

• • • • •

(By Mr. Fischgrund)

[R. p. 3238] Q. Mr. Barnes, the study you presented on direct examination was prepared on the same basis as that which was prepared and presented in connection with the transportation operations of the Virginia Electric and Power Company? A. Yes, it was.

Q. And if similar questions to those asked in regard to the Virginial Electric and Power Company were asked on cross-examination here, you would give similar answers? A. So far as they were applicable to this situation.

Q. As far as they were applicable to the El Paso Electric Company of Texas? A. Yes, sir.

Q. And the El Paso and Juarez Traction Company? A. Yes, sir.

Q. Your study, Mr. Barnes, and your testimony with respect thereto on direct examination was based on the hypothesis that a purchaser of the transportation department of El Paso Electric Company of Texas would replace the railway system with buses, is that not true? A. That is true. Of course, that is my opinion.

Q. Do you believe that if a purchaser or prospective purchaser of the El Paso transportation system had avail-

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EL PASO TRANSPORTATION (Cont'd)

able cash to purchase that transportation system that he would immediately, upon purchase of the transportation system, change the railway to buses? [R. p. 3239] A. I think if he were putting new money into the operation he would want the operation to be 100 per cent bus operation.

Q. You mean if he were financing the purchase after obtaining new money? A. That is right.

Q. But let us assume, Mr. Barnes, that the proposed purchaser has the cash available to make the purchase in current funds; in that case would the purchaser, in your opinion, convert the railway into buses immediately upon purchase? A. I think he would want to be assured, before he purchased the transportation property that under his franchise requirements he would not be required to continue the rail operation indefinitely.

• • • • •

[R. p. 3257] Q. If, Mr. Barnes, as a result of the expansion of the electric system of El Paso Electric Company of Texas, the time of joint employees which is now devoted to the transportation department could be taken up and devoted by such employees to the electric department, then the $13,839 expenses of joint employees which purportedly would result in an increase in the expenses of the electric department, should not be figured in the present worth of the transporta [R., p. 3258] tion department or the electric department, should it? A. Gradually, as time goes on, the company will be relieved of employing additional employees because of the availability of certain persons who are now devoted jointly to operation of the transportation and the electric departments. To the extent that that delays the hiring of additional men, the electric department will be relieved of this burden. That is of minor amount, however. The principal amounts involved in this allocation of joint expense have to do with executives who get the higher salaries, so that in dollar amounts it is more im-

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EL PASO TRANSPORTATION (Cont'd)

portant. Those executives as a result of not having their salaries borne in part by the railway department, are not going to be released to an extent which will prevent the hiring of other executives. Take, for example, Mr. Nelson; part of his time is charged to the transportation business. All of his time in the future will have to be charged to the electric business. But we will not save hiring any additional executives as a result of the disposition of the transportation operations.

• • • • •

Engineers' Exhibit No. 6

[Document No. 174—R. pp. 6480-6482]

VIRGINIA ELECTRIC AND POWER COMPANY

Income Statement

	Year 1939	Year 1938	Year 1937	Year 1936	Year 1935	Year 1934	Year 1933	Year 1932	Year 1931	Year 1930
Operating Revenues										
Electric	$13,774,999	$12,799,179	$12,442,321	$11,197,640	$10,335,891	$10,094,691	$ 9,909,047	$10,116,887	$10,415,263	$10,184,780
Gas	947,632	940,890	903,315	886,695	904,659	894,175	892,686	1,015,699	1,095,631	1,094,911
Railway	2,285,589	2,198,659	2,272,247	2,307,035	2,270,209	2,406,174	2,288,794	2,594,311	3,355,190	3,857,830
Bus	2,345,806	2,238,869	2,159,498	1,962,419	1,718,942	1,649,737	1,456,799	1,584,737	1,731,099	1,730,533
Other										
Total	19,354,026	18,177,597	17,777,381	16,353,789	15,229,701	15,044,777	14,547,326	15,311,634	16,597,183	16,868,054
Operating Expenses										
Electric	5,168,817	4,845,804	4,637,180	4,472,025	3,983,542	3,868,787	3,471,912	3,398,400	3,841,636	3,825,206
Gas	435,306	441,427	462,004	435,329	478,265	463,163	423,702	452,825	503,853	547,801
Railway	1,528,836	1,476,308	1,402,628	1,307,279	1,357,859	1,433,285	1,428,272	1,672,409	2,111,212	2,376,312
Bus	1,782,032	1,806,650	1,700,208	1,348,173	1,190,697	1,126,202	1,048,201	1,095,158	1,197,336	1,289,546
Other										
Total	8,914,991	8,570,189	8,202,020	7,562,806	7,010,353	6,891,437	6,372,087	6,618,792	7,654,037	8,038,865
Net Operating Revenues										
Electric	8,606,182	7,953,375	7,805,141	6,725,615	6,352,349	6,225,904	6,437,135	6,718,487	6,573,627	6,359,574
Gas	512,326	499,463	441,311	451,366	426,404	431,012	468,984	562,874	591,778	547,110
Railway	756,753	722,351	869,619	999,756	912,350	972,889	860,522	921,902	1,243,978	1,481,518
Bus	563,774	432,219	459,290	614,246	528,245	523,535	408,598	489,579	533,763	440,987
Other										
Total	10,439,035	9,607,408	9,575,361	8,790,983	8,219,348	8,153,340	8,175,239	8,692,842	8,943,146	8,829,189
Taxes	2,606,127	2,007,004	2,182,961	2,080,779	1,581,582	1,811,926	1,480,691	1,389,470	1,475,549	1,393,677
Balance	7,832,908	7,600,404	7,392,400	6,710,204	6,637,766	6,341,414	6,694,548	7,303,372	7,467,597	7,435,512
Non-Operating Income—Net	21,072*	108,111*	203,958*	141,343	57,332	75,911	92,208	101,399	360,965	287.505
Balance	7,811,836	7,492,293	7,188,442	6,851,547	6,695,098	6,417,325	6,786,756	7,404,771	7,828,562	7,723,017
Interest and Amortization	1,737,976	1,856,856	1,743,488	1,781,374	2,001,352	1,918,899	1,944,462	1,934,822	1,843,022	1,777,453
Balance	6,073,860	5,635,437	5,444,954	5,070,173	4,693,746	4,498,426	4,842,294	5,469,949	5,985,540	5,945,564
Appropriation to Depreciation or Retirement Reserve	2,240,242	2,151,141	2,050,438	1,916,667	1,800,000	1,800,000	1,800,000	1,800,000	2,100,000	2,100,000
Balance	$ 3,833,618	$ 3,484,296	$ 3,394,516	$ 3,153,506	$ 2,893,746	$ 2,698,426	$ 3,042,294	$ 3,669,949	$ 3,885,540	$ 3,845,564

*Deficit.

General

These figures are those appearing on the books of the company, except that certain minor transfers between accounts have been made in respect of the years 1930 through 1936, in order to put them on a comparable basis with the accounts of later years. Intervening changes in accounting practices make it impossible to put the figures for the years 1910 through 1929 on a basis comparable in all respects with later years.

Allocation of Expenses Between Departments

Certain facilities of the company are allocated to the plant account of a particular department because the primary use is for that department, or because the equipment is situated in the midst of property belonging to that department, but such facilities are also used for the joint benefit of more than one department. In such cases, no charge other than a sharing of operating expenses is made to the other departments. In such cases, operating expenses are allocated on a basis of estimated use by the respective departments.

Certain employees of the company are engaged in work which applies to more than one department. The salaries of such employees have been allocated between departments on various bases during the thirty year period, but since 1931 on a basis selected at that time as being the most practicable and equitable, namely, net revenue before taxes and depreciation of the respective departments. Payments to Engineers Public Service Company, Inc., under the service agreement and to the Employees' Benefit Association, are allocated on the same basis.

The total expense of operating the automotive equipment used in the automobile pool is allocated on a basis of mileage use by the respective departments.

The Transportation Department furnishes without cost, transportation to the employees of all departments of the company. The street railway department receives all of its electric energy requirements from the Electric Department and this service is charged for on the basis of average switchboard cost, which includes some purchased power, and transmission expenses.

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Engineers' Exhibit No. 9.

[Document No. 177— R. pp. 6485-6486]

VIRGINIA ELECTRIC AND POWER COMPANY

Comparative Balance Sheet

ASSETS

	December 31 1940	December 31 1939	Increase
PLANT AND OTHER INVESTMENTS			
Utility Plant			
Electric	$68,007,540	$64,664,227	$3,343,313
Gas	6,051,308	5,956,520	94,788
Railway	10,251,529	10,340,542	89,013
Bus	3,309,431	3,068,401	241,030
Other Physical Property at Cost or Written Down Amount	607,623	594,316	13,307
Investment (Management Company's Stock)	35,680	34,485	1,195
Other Investments	185,107	191,519	6,412
Total Plant and Other Investments	88,448,218	84,850,010	3,598,208
CURRENT ASSETS			
Cash in Banks and on Hand	1,443,361	1,156,696	286,665
United States Treasury Securities at Cost		1,512,819	1,512,819
Special Deposits	49,765	35,493	14,272
Accounts Receivable From Customers and Miscellaneous Sources, Including Instalment Accounts, Less Reserves	1,309,587	1,285,426	24,161
Materials and Supplies at Cost or Written Down Amounts, less Reserves	1,105,532	875,922	229,610
Prepayments	47,009	62,198	15,189
Total Current Assets	3,955,254	4,928,554	973,300
DEFERRED DEBITS			
Unamortized Debt Discount and Expense	4,586,109	4,906,229	320,120
Other Deferred Debits	94,012	30,732	63,280
Total Deferred Debits	4,680,121	4,936,961	256,840
	$97,083,593	$94,715,525	$2,368,068

* Decrease.

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Engineers' Exhibit No. 9 (Cont.)

LIABILITIES

	December 31 1940	December 31 1939	Increase
CAPITAL STOCK			
Preferred Stock (a)	$19,215,764	$19,215,883	$ 119*
Common Stock (b)	16,637,260	16,637,260	
Total Capital Stock	35,853,024	35,853,143	119*
LONG TERM DEBT			
Bonds	37,500,000	37,500,000	
Notes Payable—Long Term	2,860,000	3,430,000	570,000*
Total Long Term Debt	40,360,000	40,930,000	570 000*
CURRENT LIABILITIES			
Notes Payable	570,000	570,000	
Accounts Payable	736,887	598,119	138,768
Customers Deposits	286,019	246,754	39,265
Interest and Taxes Accrued	2,088,983	1,526,605	562,378
Other Current Liabilities	118,082	113,444	4,638
Total Current Liabilities	3,799.971	3,054,922	745,049
DEFERRED CREDITS			
Customers Advances for Construction	31,937	29,830	2,107
Deferred Profit on Long Term Merchandise Sales	35,538	69,475	33,937*
Total Deferred Credits	67,475	99,305	31,830*
RESERVES			
Depreciation Reserve	9,410,612	7,900,380	1,510,232
Reserve for Injury and Damage Claims	419,089	377,270	41,819
Other Reserves	7,370	12,063	4,693*
Total Reserves	9,837,071	8,289,713	1,547,358
CONTRIBUTIONS IN AID OF CONSTRUCTION	14,270		14,270
SURPLUS			
Capital Surplus	299,136	299,136	
Earned Surplus	6,852,646	6,189,306	663,340
	$97,083,593	$94,715,525	$2,368,068

*Decrease

(a) Represented by 195,288-4/6 shares (1939—195,289-5/6 shares) of no par value $6 Dividend Preferred Stock including 22-4/6 shares (1939—41-5/6 shares) reserved for exchange of scrip and shares of prior issues not yet surrendered for exchange.

(b) Represented by 2,788,445 shares of no par value including 140 shares reserved for exchange of scrip outstanding.

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Engineers' Exhibit No. 10.

[Document No. 178—R. pp. 6487-6488]

VIRGINIA ELECTRIC AND POWER COMPANY

Income Statement

	Year 1940	Year 1939	Increase
OPERATING REVENUES			
Electric	$14,909,800	$13,774,999	$1,134,801
Gas	1,054,987	947,632	107,355
Railway	2,447,109	2,285,589	161,520
Bus	2,580,317	2,345,806	234,511
Total	20,992,213	19,354,026	1,638,187
OPERATING EXPENSES			
Electric	5,479,876	5,168,817	311,059
Gas	507,085	435,306	71,779
Railway	1,585,694	1,528,836	56,858
Bus	1,889,403	1,782,032	107,371
Total	9,462,058	8,914,991	547,067
NET OPERATING REVENUES			
Electric	9,429,924	8,606,182	823,742
Gas	547,902	512,326	35,576
Railway	861,415	756,753	104,662
Bus	690,914	563,774	127,140
Total	11,530,155	10,439,035	1,091,120
TAXES	3,253,172	2,606,127	647,045
Balance	8,276,983	7,832,908	444,075
NON-OPERATING INCOME —NET	54,002*	21,072*	32,930*
Balance	8,222,981	7,811,836	411,145
INTEREST AND AMORTIZATION	1,761,664	1,737,976	23,688
Balance	6,461,317	6,073,860	387,457
DEPRECIATION	2,332,724	2,240,242	92,482
Balance	$ 4,128,593	$ 3,833,618	$ 294,975

* Decrease or deficit.

ALLOCATION OF EXPENSES BETWEEN DEPARTMENTS

Certain facilities of the company are allocated to the plant account of a particular department because the primary use is for that department, or because the equipment is situated in the midst of property

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Engineers' Exhibit No. 10 (Cont.)

belonging to that department, but such facilities are also used for the joint benefit of more than one department. In such cases, no charge other than a sharing of operating expenses is made to the other departments. In such cases, operating expenses are allocated on a basis of estimated use by the respective departments.

Certain employees of the company are engaged in work which applies to more than one department. The salaries of such employees have been allocated between departments on the basis of the net revenue before taxes and depreciation of the respective departments. Payments to Engineers Public Service Company, Inc. under the service agreement and to the Employees' Benefit Association, are allocated on the same basis.

The total expense of operating the automotive equipment used in the automobile pool is allocated on the basis of the mileage use by the respective departments.

The Transportation Department furnishes without cost, transportation to the employees of all departments of the company. The street railway department receives all of its electric energy requirements from the Electric Department, and this service is charged for on the basis of the average switchboard cost, which includes some purchased power and transmission expenses.

Engineers' Exhibit No. 20.

[Document No. 188—R. p. 6503]

VIRGINIA ELECTRIC AND POWER COMPANY

Jointly Used Property

	Book Value	Plant Account
GENERAL OFFICE BUILDINGS		
Richmond	$974,000	Electric
Petersburg	148,000	Electric
Norfolk	506,000	Electric
OFFICE FURNITURE AND EQUIPMENT		
Richmond	140,987	Electric
Petersburg	13,378	Electric
Norfolk	73,725	Electric
Portsmouth	5,145	Electric
AUTOMOBILES		
General Office Pools		
Richmond — 23	17,831	Electric
Petersburg — 6	4,190	Electric
Norfolk — 15	10,537	Electric
Portsmouth — 4	2,658	Electric
Combination Service Trucks		
Norfolk — 4	2,855	Electric
Norfolk — 2	1,749	Gas
Tower Trucks — 2	8,282	Electric
GARAGE BUILDINGS		
Richmond	46,000	Electric
Norfolk	202,000	Electric
GARAGE EQUIPMENT		
Richmond	3,600	Electric
Norfolk	2,900	Electric
STOREROOMS		
Richmond	161,954	Electric
Norfolk	11,675	Electric
STORES EQUIPMENT		
Richmond	12,000	Electric
Petersburg	1,200	Electric
HEATING PLANT		
Richmond	19,395 14,160	Electric Bus
MANHOLES	118,500	Electric
RIGHTS-OF-WAY	281,395	Railway
POLES	Not Available	

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Engineers' Exhibit No. 35.

[Document No. 203—R. p. 6562]

VIRGINIA ELECTRIC AND POWER COMPANY

Transportation

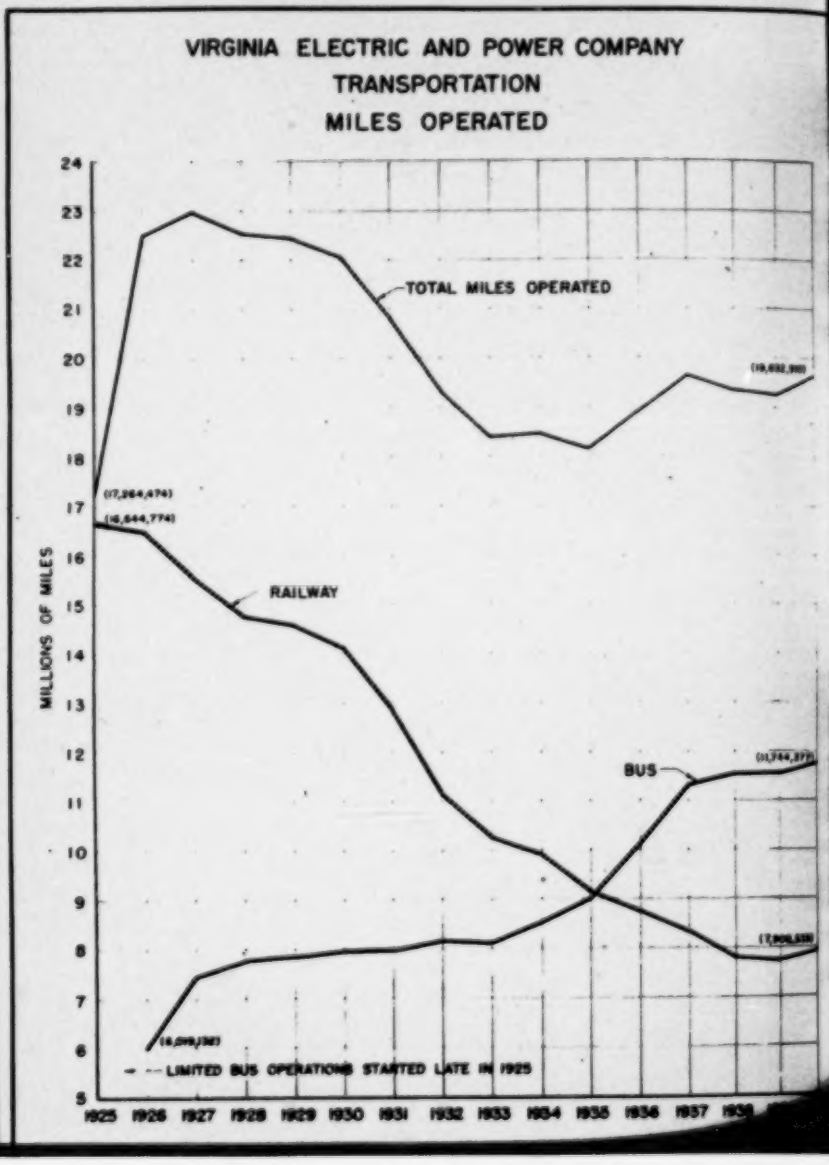
Miles Operated

Years	Railway	Bus	Total	% Railway to Total	% Bus to Total
1925	16,644,774	*619,700	17,264,474	96.4	3.6
1926	16,496,298	6,019,132	22,515,430	73.3	26.7
1927	15,524,190	7,446,830	22,971,020	67.6	32.4
1928	14,754,404	7,794,382	22,548,786	65.4	34.6
1929	14,598,069	7,861,489	22,459,558	65.0	35.0
1930	14,127,426	7,945,125	22,072,551	64.0	36.0
1931	12,861,588	7,958,790	20,820,378	61.8	38.2
1932	11,176,065	8,163,700	19,339,765	57.8	42.2
1933	10,277,651	8,105,608	18,383,259	55.9	44.1
1934	9,928,058	8,520,033	18,448,091	53.8	46.2
1935	9,145,856	9,014,463	18,160,319	50.4	49.6
1936	8,748,382	10,173,535	18,921,917	46.2	53.8
1937	8,342,032	11,320,399	19,662,431	42.4	57.6
1938	7,813,919	11,558,875	19,372,794	40.3	59.7
1939	7,704,667	11,564,398	19,269,065	40.0	60.0
1940	7,908,533	11,744,377	19,652,910	40.2	59.8

* Limited bus operations started late in 1925.

Engineers' Exhibit No. 36.

[Document No. 204—R. p. 6563]



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Engineers' Exhibit No. 37.

[Document No. 205—R. p. 6564]

VIRGINIA RAILWAY AND POWER COMPANY

(Name Changed to Virginia Electric and Power Company Nov. 1, 1925)

Railway and Trackless Trolley Statistics
December 31, 1924

Districts	Richmond	Petersburg	Interurban	Norfolk	Portsmouth	Total
Operated Track Miles (Equivalent Single Track)	84.96	13.49	21.02	89.48	18.12	227.07
Railway Route Miles	62.46	9.95	22.21	79.94	16.28	190.84
Trackless Trolley Route Miles	....	2.88	....	....	....	2.88
Total Route Miles	62.46	12.83	22.21	79.94	16.28	193.72
Double Truck Railway Cars	130	....	16	139	13	298
Single Truck Railway Cars	184	22	....	80	18	304
Total Railway Passenger Cars	314	22	16	219	31	602
Trackless Trolley Cars	....	4	....	....	....	4

Notes: The route miles of a line is equal to one-half of the round trip mileage on that line.
Service cars and trucks for use in maintenance work available in each district.

Engineers' Exhibit No. 38.

[Document No. 206—R. p. 6565]

VIRGINIA ELECTRIC AND POWER COMPANY

Railway and Bus Statistics
December 31, 1940

Districts	Richmond	Petersburg	Interurban	Norfolk	Portsmouth	Total
Operated Track Miles (Equivalent Single Track)	68.24	....	....	64.14	....	132.38
Railway Route Miles	53.60	....	....	47.58	....	101.18
Bus Route Miles	69.95	12.53	44.90	62.17	35.11	224.66
Total Route Miles	123.55	12.53	44.90	109.75	35.11	325.84
Double Truck Railway Cars	121	....	....	63	....	184
Single Truck Railway Cars	51	....	....	36	....	87
Total Railway Passenger Cars	172	....	....	99	....	271
Passenger Buses—30 or More Cap.	102	....	....	55	....	157
Passenger Buses—17 to 29 Cap.	56	14	5	48	50	173
Total Passenger Buses	158	14	5	103	50	330

Notes: In addition to above there are on order
4 double truck street cars for Richmond.
10 buses for Richmond.
15 buses for Norfolk.
10 buses for Portsmouth.
The route miles of a line is equal to one-half of the round trip mileage on that line.
Service cars and trucks for use in maintenance work available in each district.

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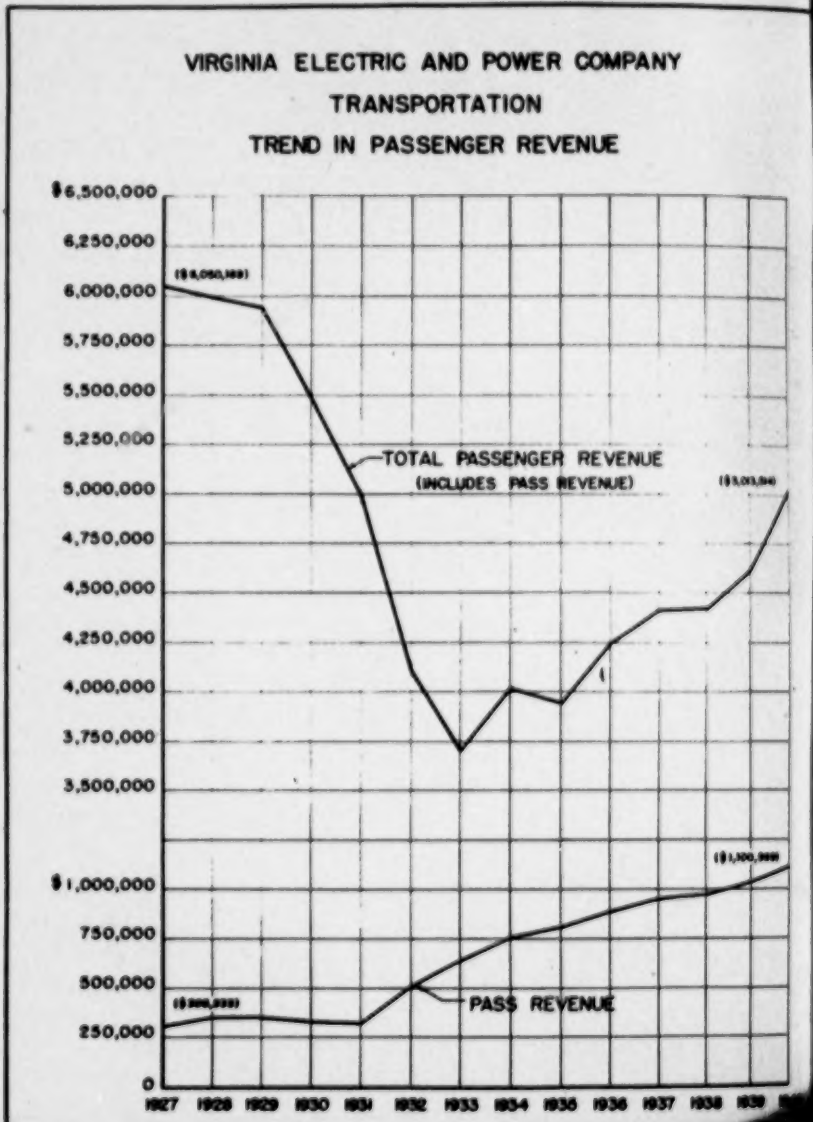
Engineers' Exhibit No. 39.

[Document No. 207—R. p. 6566]



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Engineers' Exhibit No. 40.

[Document No. 208—R. p. 6567]

VIRGINIA ELECTRIC AND POWER COMPANY

Transportation

Total Passenger Revenue and Pass Revenue

Year	Total Passenger Revenue			Pass Revenue			Per Cent Pass Revenue to Total Passenger Revenue	Per Cent of Total Passenger Revenue	
	Railway	Bus	Total	Railway	Bus	Total		Railway	Bus
1927	$4,482,394	$1,567,775	$6,050,169	$ 206,811	$ 98,722	$ 305,533	5.05	74.09	25.91
1928	4,278,884	1,719,630	5,998,514	219,837	122,010	341,847	5.70	71.33	28.67
1929	4,181,615	1,761,440	5,943,055	219,338	128,279	347,617	5.85	70.36	29.64
1930	3,799,734	1,694,783	5,494,517	207,082	124,648	331,730	6.04	69.16	30.84
1931	3,298,668	1,699,100	4,997,768	185,285	135,967	321,252	6.43	66.00	34.00
1932	2,545,873	1,566,288	4,112,161	295,216	213,585	508,801	12.37	61.91	38.09
1933	2,263,321	1,439,012	3,702,333	383,778	262,190	645,968	17.45	61.13	38.87
1934	2,383,639	1,632,983	4,016,622	441,991	313,999	755,990	18.82	59.34	40.66
1935	2,247,261	1,702,039	3,949,300	469,776	343,957	813,733	20.60	56.90	43.10
1936	2,299,366	1,949,191	4,248,557	510,488	376,634	887,122	20.88	54.12	45.88
1937	2,266,793	2,147,956	4,414,749	531,646	419,160	950,806	21.54	51.35	48.65
1938	2,192,304	2,229,314	4,421,618	527,718	449,129	976,847	22.09	49.58	50.42
1939	2,276,843	2,333,954	4,610,797	555,357	474,053	1,029,410	22.33	49.38	50.62
1940	2,443,816	2,569,698	5,013,514	596,479	504,090	1,100,569	21.95	48.74	51.26

NOTES: $1.25 weekly pass introduced in Richmond on July 1, 1932.
$0.75 shoppers pass introduced in Richmond on December 6, 1931 and introduced in Norfolk on July 18, 1932.
$1.50 weekly pass introduced in Norfolk January 1, 1927 and reduced to $1.25 on July 1, 1932.

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Engineers' Exhibit No. 63.

[Document No. 233—R. pp. 6623-6630]

VIRGINIA ELECTRIC AND POWER COMPANY

Report on Departmental Income Statement for the Year Ended December 31, 1940

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Engineers' Exhibit No. 63 (Cont.)

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS
90 Broad Street
New York

May 1, 1941.

VIRGINIA ELECTRIC AND POWER COMPANY,
Richmond, Virginia.

Dear Sirs:

In accordance with your instructions we have reviewed the income statement of the company for the year ended December 31, 1940 for the purpose of segregating the net income of $4,128,593.29 shown thereon between the operating departments of the company.

The method of accounting employed by the Company provides for the departmentalization of all accounts which clear into the income statement, except those representing the items of depreciation, other income, and interest and amortization. A number of joint accounts are maintained for certain types of expenses which benefit more than one department and such accounts are accumulated and distributed monthly to the departments concerned on a predetermined apportionment basis depending upon the nature of the account and the extent of the benefits. The general apportionments used by the company are based upon either (a) departmental operating revenues, less operating expenses (exclusive of depreciation and taxes), or (b) departmental operating revenues. In either case the apportionment is determined by the figures of the preceding year.

[R. p. 6625] Notwithstanding our careful consideration we have been unable to find any substantial support for basis (a). Alternatively, we believe that basis (b) has more widespread sanction and gives more complete recognition to

all the factors which should properly be considered where a general basis of apportionment needs to be restored to. Accordingly, in the accompanying statements we have made adjustments which we feel to be equitable in the substitution of basis (b) for basis (a) where the latter has been used in the company's accounting.

The total depreciation provided in the accounts has been allocated to departments in the same manner in which we are advised the total provision has been built up by the company, that is, by the use of the following rates:

Electric	2½%
Gas	2½%
Transportation:	
Railway	6½%
Bus:	
Buses	1.86¢ per bus mile traveled
Other bus property	3%
Autos and trucks (Transportation Clearing Account)	15%

Other income and interest and amortization have been allocated to departments on bases which we believe to be reasonable giving due weight to the circumstances in each case.

Other adjustments which have been made, as described on the statement on page 6 hereof, are of two classes. One class represents adjustments to account for electricity used [R. p. 6626] interdepartmentally at rates which the company believes to be more satisfactory than those previously used. The other class covers items of services or facilities of one department rendered to or used by other depart-

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Engineers' Exhibit No. 63 (Cont.)

ments for which no accounting has heretofore been made between the departments concerned.

We are appending hereto the following statements for the year ended December 31, 1940:

Departmental Income Statement
Transportation Department Income Statement
Analysis of Interdepartmental Adjustments

which, in our opinion, reflect a reasonable allocation between departments of the net income shown by the income statement of the company for the year ended December 31, 1940, concerning which we expressed our opinion under date of March 1, 1941 in connection with our examination of the financial statements of the company as at that date.

Very truly yours,

(s) LYBRAND, ROSS BROS. MONTGOMERY.

Engineers' Exhibit No. 63 (Cont.)

[R. p. 6627] **VIRGINIA ELECTRIC AND POWER COMPANY**

Departmental Income Statement

Year Ended December 31, 1940

	Total	Electric Department	Gas Department	Transportation Department
OPERATING REVNUES	$20,992,213.12	$14,909,799.88	$1,054,987.15	$5,027,426.09
OPERATING EXPENSES AND TAXES (exclusive of depreciation):				
Operations	$ 7,800,753.90	$ 4,746,095.74	$ 426,268.17	$2,628,389.99
Maintenance	1,661,304.08	733,780.45	80,816.89	846,706.74
Taxes—Federal income and capital stock	1,385,300.00	1,308,648.00	76,652.00	
—Other	1,867,871.91	1,380,193.63	80,709.66	406,968.62
TOTAL	$12,715,229.89	$ 8,168,717.82	$ 664.446.72	$3,882,065.35
Net operating revenues per books, before depreciation	$ 8,276,983.23	$ 6,741,082.06	$ 390,540.43	$1,145,360.74
DEPRECIATION ALLOCATED TO DEPARTMENTS (see Note)	$ 2,332,724.00	$ 1,401,808.00	$ 110,226.00	$ 820,690.00
ADJUSTMENTS:				
Reapportionment of joint expenses		89,210.90*	1,141.30*	90,352.20
Interdepartmental services		25,510,31*	11,021.65	14,488.66
Joint use of facilities		28,525.41*	11,544.42	16,980.99
Reallocation of federal income and capital stock taxes		68,250.38*	19,993.23*	88,243.61
TOTAL	$ 2,332,724.00	$ 1,190,311.00	$ 111,657.54	$1,030,755.46
Net operating revenues, as adjusted	$ 5,944,259.23	$ 5,550,771.06	$ 278,882.89	$ 114,605.28
OTHER INCOME	54,002.21*	53,213.04*	1,108.38	1,897.55*
Balance	$ 5,890,257.02	$ 5,497,558.02	$ 279,991.27	$ 112,707.73
INTEREST AND AMORTIZATION:				
Interest on long-term debt	$ 1,425,375.05	$ 1,257,243.80	$ 109,856.25	$ 58,275.00
Other interest	16,167.80	13,625.00	2,542.80	
Amortzation of discount and expense	320,120.88	279,113.40	26,794.12	14,213.36
Total interest and amortization	$ 1,761,663,73	$ 1,549,982.20	$ 139,193.17	$ 72,488.36
Net income	$ 4,128,593.29	$ 3,947,575.82	$ 140,798.10	$ 40,219.37

NOTE: The amounts provided for depreciation during 1940 were approximately $242,000 less than the depreciation deductions claimed on the federal income tax return of the company. In addition to the amounts shown above as depreciation, the company accrued $67,276 for depreciation on automobiles and trucks and assigned such depreciation to other accounts.

* Denotes red figures in original.

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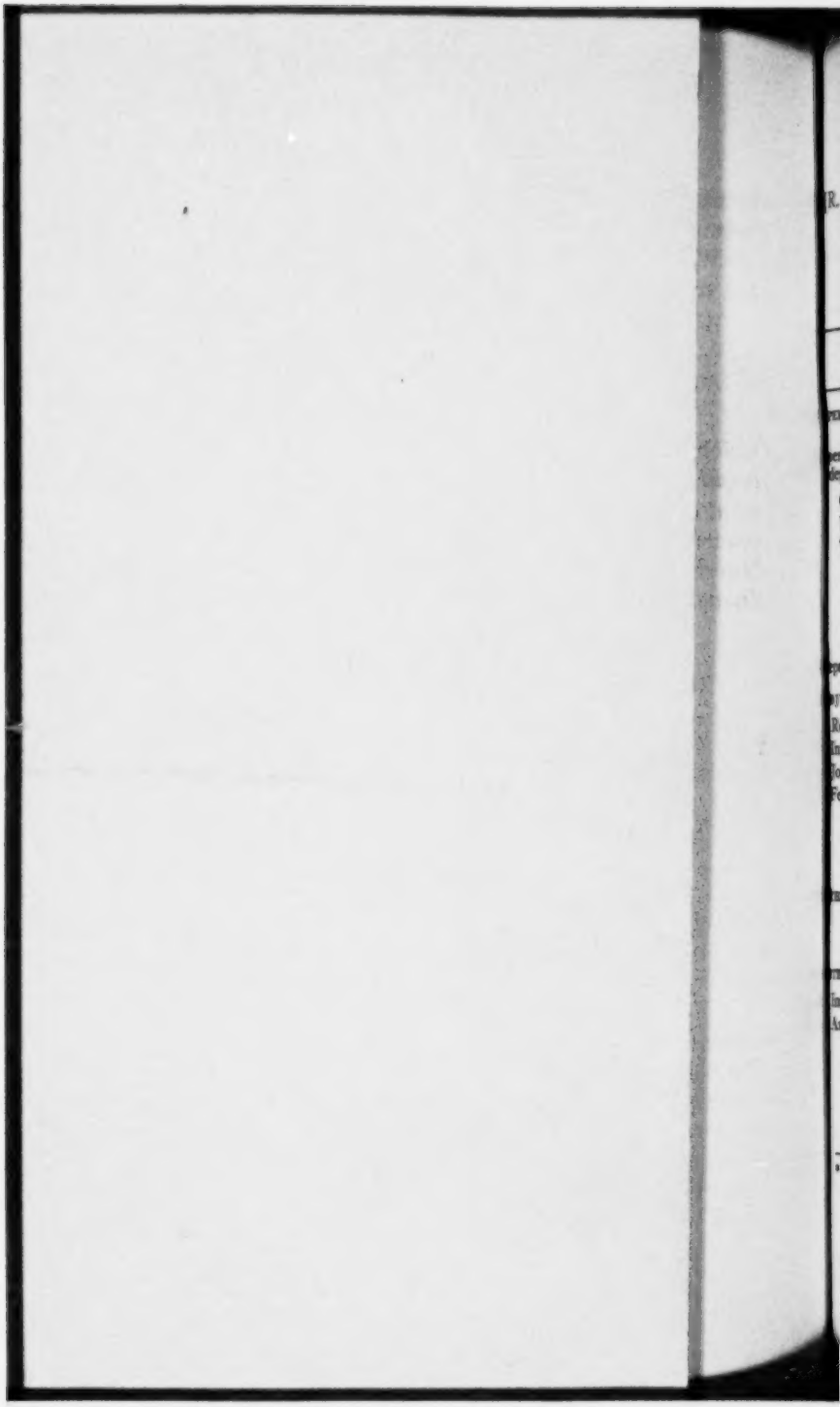

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Engineers' Exhibit No. 63 (Cont.)

[R. p. 6628] **VIRGINIA ELECTRIC AND POWER COMPANY**

Transportation Department Income Statement

Year Ended December 31, 1940

	Total	Railway Division	Bus Division
PERATING REVENUES	$5,027,426.09	$2,447,109.53	$2,580,316.56
perating expenses and taxes (exclusive of depreciation):			
Operations	$2,628,389.99	$1,125,972.55	$1,502,417.44
Maintenance	846,706.74	459,721.44	386,985.30
Taxes	406,968.62	160,393.77	246,574.85
Total	$3,882,065.35	$1,746,087.76	$2,135,977.59
Net operating revenues per books, before depreciation	$1,145,360,74	$ 701,021.77	$ 444, 338.97
preciation	$ 820,690.00	$ 583,342.00	$ 237,348.00
JUSTMENTS:			
Reapportionment of joint expenses	90,352.20	31,288.30	59,063.90
Interdepartmental services	14,488.66	63,112.10	48,623.44*
Joint use of facilities	16,980.99	10,011.07	6,969.92
Federal income and capital stock taxes	88,243.61	64,554.98	23,688.63
Total	$1,030,755.46	$ 752,308.45	$ 278.447.01
Net operating revenues, as adjusted	$ 114,605.28	$ 51,286.68*	$ 165,891.96
HER INCOME	1,897.55*	4,241.39	6,138.94*
Balance	$ 112,707.73	$ 47,045.29*	$ 159,753.02
TEREST AND AMORTIZATION:			
Interest on long-term debt	$ 58,275.00		$ 58,275.00
Amortization of discount and expense	14,213,36		14,213.36
Total interest and amortization	$ 72,488.36		$ 72,488.36
Net income	$ 40,219.37	$ 47,045.29*	$ 87,264.66

*Denotes red figures in original.

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[R. p. 6629] **VIRGINIA ELECTRIC AND POWER COMPANY**

Analysis of Interdepartmental Adjustments

For the Year Ended December 31, 1940

	Electric Department	Gas Department	Transportation Department — Total	Transportation Department — Railway Division	Transportation Department — Bus Division
Reapportionment of joint expenses:					
Reapportionment on basis of gross operating revenues of prior year	$ 75,379.72*	$ 449.75*	$ 75,829.47	$ 24,372.71	$51,456.76
Reapportionment of company's contributions to Employees' Benefit Association on basis of membership from each department	13,831.18*	691.55*	14,522.73	6,915.59	7,607.14
Total	$ 89,210.90*	$ 1,141.30*	$ 90,352.20	$ 31,288.30	$59,063.90
Interdepartmental services:					
Electricity furnished to other departments	$229,308.67*	$11,144.67	$218,164.00	$218,164.00	.....
Less, Portion accounted for on books	112,915.34*	5,331.70	107,583.64	107,583.64	.....
Balance to be accounted for	$116,393.33*	$ 5,812.97	$110,580.36	$110,580.36	.....
Gas furnished to other departments	5,197.20	5,581.32*	384.12	184.38	$ 199.74
Free transportation furnished to employees	83,610.49	10,790.00	94,400.49*	46,532.74*	47,867.75*
Car and bus advertising	2,075.33	.....	2,075.33*	1,119.90*	955.43*
Total	$ 25,510.31*	$11,021.65	$ 14,488.66	$ 63,112.10	$48,623.44*
Joint use of facilities:					
General office buildings and storerooms	$ 19,633.00*	$10,721.00	$ 8,912.00	$ 3,691.00	$ 5,221.00
Jointly used poles and rights-of-way	3,927.50*	.....	3,927.50	3,927.50	.....
Jointly used manholes	915.35*	.....	915.35	915.35	.....
General office and storeroom furniture and equipment	4,049.56*	823.42	3,226.14	1,477.22	1,748.92
Total	$ 28,525.41*	$11,544.42	$ 16,980.99	$ 10,011.07	$ 6,969.92

* Denotes red figures in original.

Engineers' Exhibit No. 98.

[Document No. 268—R. p. 7105.]

BATON ROUGE BUS COMPANY, INC.

Comparative Income Statement

	1940 Dec. 31, 1940	1939 Dec. 31, 1939
Operating revenues:		
Transportation department	$275,148.28	$268,925.02
Operating expenses and taxes:		
Operation	$156,670.91	$157,647.35
Maintenance	30,958.52	27,257.46
Depreciation	27,456.41	26,497.41
Taxes—Federal income (a)	10,460.00	9,380.00
—Other	14,541.77	15,563.06
Total	$240,087.61	$236,345.28
Net operating revenues	$ 35,060.67	$ 32,579.74
Other income—net loss	122.07	116.40
Balance	$ 34,938.60	$ 32,463.34
Interest	.82	—0—
Balance for capital stock and surplus	$ 34,937.78	$ 32,463.34

Comparative Earned Surplus Statement

	1940	1939
Earned surplus at beginning of year	$ 20,756.27	$ 13,292.93
Balance for capital stock and surplus, as above	34,937.78	31,463.34
Total	$ 55,694.05	$ 45,756.27
Deduction:		
Common dividends declared	$ 25,000.00	$ 25,000.00
Earned surplus at end of year	$ 30,694.05	$ 20,756.27

*Denotes red figures in original.

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Engineers' Exhibit No. 98 (Cont.)

Comparative Balance Sheet

	Dec. 31, 1940	Dec. 31, 19
ASSETS:		
Plant and other investments:		
Utility plant (including intangibles), at cost	$271,747.10	$256,743.6
Investment in associated company, at cost	495.00	480.0
Total plant and other investments	$272,242.10	$257,223.6
Current assets:		
Cash in bank and on hand	$ 97,601.21	$ 78,892.3
Accounts receivable from miscellaneous sources	3,591.42	3,607.0
Materials and supplies, at cost or written-down amounts	5,673.23	5,521.0
Prepayments	870.46	1,224.9
Total current assets	$107,736.32	$ 89,245.3
	$379,978.42	$346,469.0
LIABILITIES:		
Capital stock, no par value; authorized and outstanding 2,000 shares	$180,000.00	$180,000.0
Current liabilities:		
Accounts payable	$ 7,006.24	$ 8,703.2
Accounts payable to associated company	455.62	561.2
Accrued taxes	13,714.18	13,887.0
Other current liabilities	150.00	150.0
Total current liabilities	$ 21,326.04	$ 23,301.5
Reserves:		
Depreciation reserve	$134,137.18	$106,680.7
Reserve for injury and damage claims	13,821.15	15,730.5
Total reserves	$147,958.33	$122,411.2
Earned surplus	$ 30,694.05	$ 20,756.2
	$379,978.42	$346,469.0

(a) The Company does not consider that it has any liability under the Excess Profit Tax Act of 1940.

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Engineers' Exhibit No. 99.

[Document No. 269—R. p. 7106]

Tabulation of Estimated Total Cost Per Month to Baton Rouge Bus Company, Inc. to Replace Employees Presently Used Jointly With Gulf States Utilities Company.

President and General Manager	$400 per Mo.
Treasurer	300 per Mo.
Stenographer and Secretary	125 per Mo.
Chief Clerk	200 per Mo.
Senior Bookkeeper	150 per Mo.
Junior Bookkeeper	125 per Mo.
Stenographer-typist	100 per Mo.
Claim Investigator	100 per Mo.
Total	$1500 per Mo.

Engineers' Exhibit No. 100.

[Document No. 270—R. p. 7107]

GULF STATES UTILITIES COMPANY

Water Properties Operated December 31, 1940, Their Capacity and Number of Customers Served.

	Daily Pumping Capacity Thousand Gals.	Estimated Population	Customers December 31, 1940
Calvert, Texas	3,600	2,500	365
Franklin, Texas	576	1,100	272
Navasota, Texas	1,728	6,300	803
Orange, Texas	5,328	9,500	1,696
Carencro, La.	432	850	152
Denham Springs, La.	209	1,200	159
Lake Charles, La.	11,640	23,000	4,312
	23,513	44,450	7,759

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Engineers' Exhibit No. 119.

[Document No. 289—R. p. 7191]

GULF STATES UTILITIES COMPANY

Departmental Income Statement—Year Ended 12-31-40

	Total	Electric	Gas	Water	Ice
Operating Revenues	$10,733,467.77	$9,740,738.52	$638,711.08	$235,375.40	$118,642.77
Operating Expenses & Taxes: (Exclusive of Depreciation)					
Operation	3,319,262.74	2,839,498.31	324,663.23	72,195.01	82,906.19
Maintenance	584,278.04	506,665.00	23,926.03	24,977.35	28,709.66
Taxes: Federal Income & Capital Stock	722,998.00	676,090.70	42,548.90	4,358.40	—0—
Other	960,755.74	873,969.38	40,251.48	37,418.97	9,115.91
Total	5,587,294.52	4,896,223.39	431,389.64	138,949.73	120,731.76
Net Operating Revenues per Books—before Depreciation	$ 5,146,173.25	$4,844,515.13	$207,321.44	$ 96,425.67	$ 2,088.99*
Depreciation Allocated to Departments	$ 1,456,929.71	$1,347,929.71	$ 38,000.00	$ 39,000.00	$ 32,000.00
Adjustments					
Joint use of facilities		21,086.52*	12,156.41	5,002.76	3,927.35
Interdepartmental services		16,249.74*	183.62	5,202.01	10,864.11
Re-allocation of salaries & expenses of supervisory personnel		1,203.23*	2,728.79	671.05*	854.51*
Re-allocation of federal income & capital stock taxes		4,973.42	2,856.31*	2,117.11*	
Total	$ 1,456,929.71	$1,314,363.64	$ 50,212.51	$ 46,416.61	$ 45,936.95
Net Operating Revenues as adjusted	$ 3,689,243.54	$3,530,151.49	$157,108.93	$ 50,009.06	$ 48,025.94*
Other Income	16,985.97	1,060.19*	6,889.17	293.85*	11,450.84
Balance	$ 3,706,229.51	$3,529,091.30	$163,998.10	$ 49,715.21	$ 36,575.10*
Interest & Amortization:					
Interest on Long-Term Debt	$ 1,061,200.00	$1,003,895.20	$ 28,334.04	$ 28,970.76	$ ---
Other Interest	14,750.26	12,847.51	1,412.59	490.16	---
Amortization	203,944.92	192,931.89	5,445.33	5,567.70	---
Total	1,279,895.18	1,209,674.60	35,191.96	35,028.62	—0—
Net Income	$ 2,426,334.33	$2,319,416.70	$128,806.14	$ 14,686.59	$ 36,575.10*

Engineers' Exhibit No. 128.

[Document No. 298—R. p. 7254]

VIRGINIA ELECTRIC AND POWER COMPANY

Value of Transportation Business

Thousands of Dollars

I. If Operation by Vepco Continued at 1940 Level for 15 Years.		
Gross income—Lybrand report 5/1/41		$ 113
Accrual for Railway depreciation	$ 583	
Estimated annual replacements	50	
Depreciation accrual available for return of capital		533
Estimated expenses now borne by and services furnished by transportation department which would have to be borne by other departments if transportation were sold	$ 244	
Less Federal income tax saving	44	
		200
Transportation and Advertising furnished other departments—not cash revenue		96*
Annual incremental cash from transportation operations		$ 750
Present worth @ 6% of annuity of $750 for fifteen years (9.712)		7,284
Present worth of business for sale 15 years hence @ $2,110 value determined below (.4173)		880
Total present worth to Vepco		$8,164
II. If Sold by Vepco.		
Net operating revenue before depreciation—Lybrand 5/1/41		$ 935
Value fully converted to bus operation estimated at 6 times above earnings		5,610
Cost of converting railway to bus 325 buses	$2,500	
Abandonment expense; paving, etc.	1,000	3,500
Estimated market value		$2,110
Estimated Federal Income Tax saving to Vepco if sold in 1941 if tax rate is 30%		842
Estimated sales realization		$2,952

* Indicates red.

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Engineers' Exhibit No. 176.

[Document No. 346—R. p. 7500]

EL PASO ELECTRIC COMPANY (TEXAS)
MESILLA VALLEY ELECTRIC COMPANY
EL PASO & JUAREZ TRACTION COMPANY

Combined Income Statement
(After intercompany eliminations)
Showing Effect of Revised Allocations
Year 1940

	Total Companies per Books	Electric Department	Transportation and Bridge Departments	Merchandise and Jobbing
Operating revenues	$3,457,534.58	2,782,918.01	674,616.57	
Operation	1,375,071.74	1,048,500.49	326,571.25	
Maintenance	192,770.67	118,755.95	74,014.72	
Depreciation	416,099.87	291,277.64	124,822.23	
Taxes	485,922.17	415,939.99	69,982.18	
Net operating revenues	987,670.13	908,443.94	79,226.19	
Adjustments:				
Joint use of facilities		7,298.75*	107.99#	
Interdepartmental services		6,474.00*	5,115.40#	
Reallocation of salaries and expenses of personnel		6,086.69*	9,817.87*	
Reallocation of capital stock and franchise taxes		1,332.32#	1,332.32*	
Total Adjustments		18,527.12*	5,926.80*	
Net operating revenues—adjusted		926,971.06	85,152.99	
Other income—net	9,661.49	10,966.69#	1,428.60#	22,056.78
Balance	997,331.62			
Adjustments:				
Joint use of facilities				7,190.76
Interdepartmental service				1,358.60
Reallocation of salaries and expenses of personnel				15,904.56
Miscellaneous adjustments		2,675.14*	1,749.13#	926.01
Other income—net—adjusted		8,291.55#	3,177.73#	3,323.15
Balance—adjusted		918,679.51	81,975.26	3,323.15
Interest and Amortization	489,249.46	479,755.60	9,493.86	—0—
Balance	$ 508,082.16	438,923.91	72,481.40	3,323.15

* Indicates credit
\# Indicates deficit or charge

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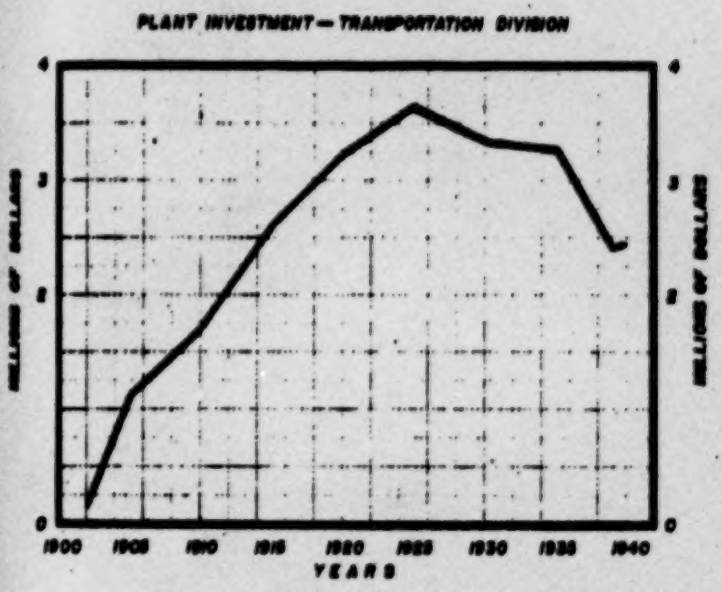
Engineers' Exhibit No. 185.

[Document No. 355—R. p. 7522]



EL PASO ELECTRIC CO. SYSTEM
DATA PRESENTED S.E.C.

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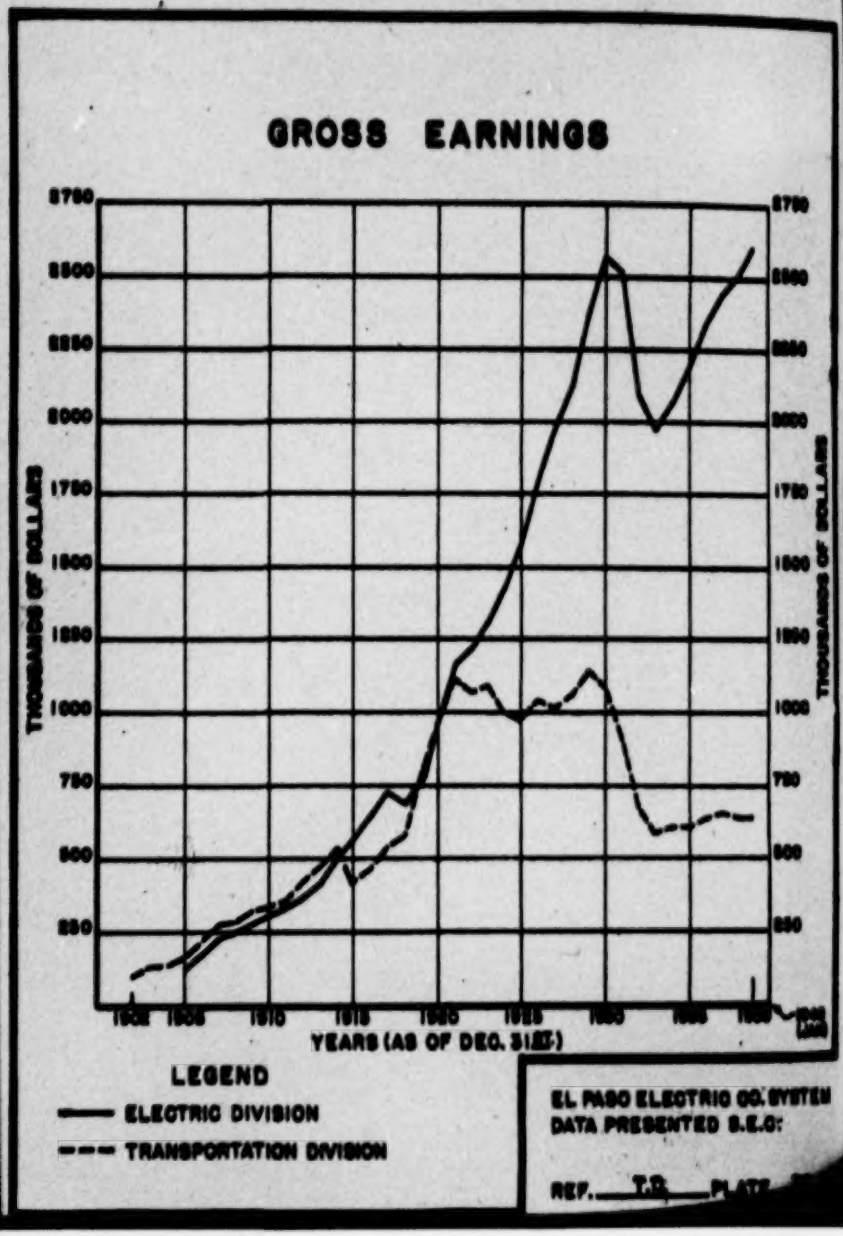
Engineers' Exhibit No. 186.

[Document No. 356—R. p. 7523]



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Engineers' Exhibit No. 187.

[Document No. 357—R. pp. 7524-7525]

EL PASO ELECTRIC COMPANY (DELAWARE) AND SUBSIDIARIES

Value of Transportation Business
Thousands of Dollars

1 If Operation by Company Continued at 1940 Level for Ten Years		
Gross income—Engineers' Exhibit 176		82
Accrual for Railway and Bridge Depreciation	101	
Less estimated accrual for bridges	12	
	89	
Accrual required for bus replacements after substitution of buses for Fort Bliss Line (after 1944)	14	
Depreciation accrual available for return of capital		75
Estimated expenses and charges now borne by transportation department which would have to be borne by the electric department if transportation were sold	29	
Less Federal income tax saving	9	
		20
Annual increment cash from transportation operations		177
Present worth @ 6% of 177 for 10 years (7.36)		$1,303
" " of business for sale 10 years hence @ $902 value determined below (.56)		505
Total present worth to El Paso Electric Company (Delaware)		$1,808

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Engineers' Exhibit No. 187 (Cont.)

II If Sold by Company

Net operating revenue before depreciation Engineers' Exhibit		20
Value fully converted to bus operation estimated at 6 times above earnings		1,24
Cost of converting to bus operation		
Buses	360	
Garage	75	
Abandonment expense net	42	47
Total market value		76
Net current assets El Paso and Juarez Traction Company		13
Estimated market value		90
Estimated Federal income tax saving if sold in 1941 if tax rate is 30%		
a. El Paso and Juarez Traction Company		
Value of property	$\frac{765 \times 47 - 174}{207}$	
Net current assets	137	
Total market value	311	
Tax cost of El Paso (Delaware)	311	
Tax saving to El Paso (Delaware)	0	
b. El Paso Electric Company (Texas)		
Tax base transportation assets	771	
Sale price " 765-174	591	
Tax loss "	180	
Tax saving 30%		5
Estimated sales realization		95

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Engineers' Exhibit No. 202.

[Document No. 372—R. pp. 7557-7608]

VIRGINIA ELECTRIC and POWER COMPANY

Recommendations as to Methods of Allocating Expenses to Electric, Gas and Transportation Departments and to Merchandise and Jobbing Activities

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Engineers' Exhibit No. 202 (Cont.)

[R. p. 7559] LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants
90 Broad Street
New York

August 1, 1941.

Virginia Electric and Power Company,
Richmond, Virginia.

Dear Sirs:

In accordance with a resolution of the Board of Directors of the company adopted at its meeting on May 14, 1941 we have made a further investigation of the allocation of expenses between the Electric, Transportation and Gas Departments, for the purpose of making recommendations as to methods of allocation and the appropriate accounting procedure to reflect such allocations on the books of the company beginning July 1, 1941.

At a later date we were requested to further extend our investigation to cover the merchandise and jobbing activities of the company, with the object of formulating similar recommendations as to the allocation of expenses to such activities.

We have made such investigations, and submit our recommendations, together with explanatory comments, under the various captions which follow.

I. PAY ROLL ALLOCATIONS

As at May 31, 1941 there were 818 employees of the company whose time was spent in the service of two or more of the operating [R. p. 7560] departments. Of this number 308 employees regularly report on time vouchers, which furnish the basis for their pay roll allocation, and 69 employees are engaged in functions which require their compensa-

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tion to be charged wholly to stores or transportation clearing accounts. The remainder, or 441 employees, who were jointly serving more than one department, were given consideration as a subject for pay roll study.

It was found that the nature of the services rendered by 214 of these 441 employees was such as to be unsuitable for recording on time reports for the purpose of departmental allocation. Such employees include:

(a) Office building employees, telephone operators, welfare department employees, cashiers and transportation dispatchers, supervisors and clerks, whose services are too diversified to record on a classified time basis or lend themselves to other more satisfactory methods of classification; and

(b) Certain secretaries and assistants, whose time would normally follow that of their principals; and

(c) Claim department employees, because it was found that a four week study would be too short a period to be representative of that department's direction of effort.

The remaining 227 joint employees were requested to prepare daily time reports commencing on Monday, May 19, 1941, and continuing for a period of four weeks, for the purpose of showing their daily assignments of time to the respective operating departments of the company.

These time reports were reviewed by us and discussed with officers of the company and with the department heads concerned. [R. p. 7561] For the most part the apportionment of time between departments was believed to be representative of the employees' yearly time or for the yearly time of a department as a whole. In certain instances where the four weeks' period was not considered representative, adjustments or additional studies were made to offset the particular circumstances arising in the period covered by the time study.

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Engineers' Exhibit No. 202 (Cont.)

The time reports for the individual employees were weighted with the salaries of the respective employees in order to arrive at a ratio of apportionment for each particular department as a whole.

Operating Revenue Apportionments: Those departments in Richmond with functions of a general nature affecting all operating activities of the company were grouped together to obtain a composite ratio of apportionment. Such grouping served the threefold purpose of providing a more stable standard of apportionment because of its broader base, minimizing the effect of inequities which might result in individual cases from limiting the time studies to a four-week period, and avoiding the placing of an uneconomic burden on the pay roll department through the use of a multiplicity of individual or departmental ratios which would require review and adjustment from time to time. This group of approximately 90 employees consists of general executives, assistants and secretaries and the following departments in Richmond:

[R. p. 7562]

General accounting	Insurance
Pay roll	Stenographic
Tax	Filing
Statistical	Mailing
Purchasing	Messengers

The composite ratio of apportionment of time of the employees in the above group was:

Electric 74.47%; Gas 5.24%; Railway 10.00%; Bus 10.29%.

Because of the relatively short period covered by the time study and also due to the fact that the apportionment between departments of time of a general nature was based on the judgment of the individual employees as to effort expended and benefits derived therefrom, it is apparent that the ratio thus developed might vary a few points from the

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actual experience over a full year's operation. Inasmuch as the above ratio differs only slightly from the ratio of gross operating revenues of the four departments of the company for the preceding year, namely:

Electric 71.02%; Gas 5.03%; Railway 11.66%; Bus 12.29%

we recommend that the ratio of gross operating revenues be used in apportioning the salaries of this general group of employees. The basis of gross operating revenues, as contrasted with a series of individual bases, lends itself more readily to periodic revision and eliminates the necessity of recurring time studies.

The results of the studies made of the time or effort of other employees working for two or more departments indicate [R. p. 7563] that the apportionment of the salaries of a number of such employees should be in accordance with the ratio of gross revenues of the operating departments for which the employee works, on a system, division or district basis, depending upon the scope of the employee's duties. Such employees are included in Appendix A hereto under the various classifications coming within the group heading "Basis of operating revenues."

Special Apportionments: The daily time reports submitted by employees in the construction accounting department indicated the apportionment of the time of that department as being:

Electric 92%; Gas 3%; Railway 3%; Bus 2%.

In the opinion of the head of that department this ratio is believed to be a more equitable distribution of the department's time than the ratio of apportionment presently used, viz.:

Electric 97%; Gas 1%; Railway 1%; Bus 1%.

Engineers' Exhibit No. 202 (Cont.)

During February, 1941 the company's sales manager made a review of salary apportionments of all employees in the sales department. Changes in apportionment resulting from this review were made effective as of February 15, 1941. We discussed this review and the revised apportionments with the sales manager and as a result we are satisfied that no further revisions need be made at this time in the apportionment of salary expense of the sales department, other than in the case of the three employees noted in Appendix A hereto.

[R. p. 7564] The telephone operators whose salaries are subject to special apportionment are those who spend a part (approximately one-half) of their time in sorting cashiers' coupons for the electric and gas departments.

The salaries of welfare department employees have been apportioned to operating departments in the past on the basis of net operating revenues. Since the duties of these employees are concerned with all employees of the company we believe that the number of employees in each department offers a sounder basis of apportionment of the salary expense of the welfare department, and recommend that that basis be adopted.

We recommend that the salary of each office building employee be charged in its entirety to the respective operating expense account pertaining to the building in which the employee works. These expense accounts should be cleared monthly to the various operating departments in proportion to the use which each department makes of the particular office building. Later herein the departmental ratio of use of each building will be discussed.

The arrangement of the work done by the customers' accounting department in the Norfolk office is such that various ratios must be used in order to make an equitable apportionment of salary expense between the electric and gas departments. Combination service men work entirely within that portion of the Norfolk district where both electric and gas service is rendered. Contact clerks, unit book-

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keepers, cashiers, bill deliverers, collectors and certain credit employees work on matters pertaining [R. p. 7565] to the Norfolk district only. Customers' history and location record clerks, credit managers and meter readers work for both the Norfolk and Portsmouth districts. Meter record clerks maintain records for the entire Norfolk division excluding the Suffolk district. Billing clerks, verifiers and addressing clerks handle work for the entire Norfolk division. The ratios of apportionment therefor are dependent upon the scope of the employees' duties.

The relative number of electric and gas meters or electric and gas customers appears to offer an equitable basis of apportioning the salaries of the above group of employees. We recommend that the salaries of combination service men, meter readers and meter record clerks be apportioned on the basis of the relative number of meters and that the salaries of the balance of the employees designated above be apportioned in accordance with the ratio of customers served. It is obvious that the time required to handle a combination service, except in the case of meter record clerks, would be less than that required to handle two individual services. For the purpose of giving weight to this factor it has been estimated that the time required for a combination service would be approximately three-fourths of that required for two individual services. In arriving at the ratios shown on Appendix A hereto for these classes of employees meters and customers have been weighted accordingly where combination services are involved.

[R. p. 7566] We recommend that certain employees whose salaries are at present apportioned to more than one department be charged entirely to the electric department because of the fact that their time and effort is almost wholly devoted to the work of that department. Such employees include the general cashiers in the Richmond and Portsmouth offices and the wholesale ledger clerks in the Norfolk office.

The nature of the work of the claim department employees is such that it is extremely difficult to arrive at

any statistical basis which might be used for the apportionment of salaries between operating departments. The daily time voucher basis would provide the most satisfactory means for distribution of the pay roll of this department, and there would seem to be no practical reason against the adoption of such a basis. We accordingly recommend that this department be placed on a time voucher basis, with the exception of the general claim agent, his assistant (in Norfolk) and one or two clerical employees, whose time could be apportioned on the composite ratio of those employees submitting daily time vouchers.

Appendix A: Our recommendations as to the apportionment of the salaries of joint employees between the Electric and Gas Departments and the Railway and Bus divisions of the Transportation Department, which have been generally discussed and explained in the preceding paragraphs, are summarized in Appendix A hereto. It should be understood that the number of employees listed therein is based upon the pay roll as at May 31, 1941, and that because of [R. p. 7567] pay roll changes the number of employees given does not necessarily represent the exact number of employees in each classification as at July 1, 1941, the effective date of the proposed changes in accounting procedures. It also should be understood that in all cases gross operating revenues represent such revenues for the preceding calendar year. The ratios developed from the number of customers and meters are as at April 30, 1941, and might properly be used for the remainder of the year, unless a substantial change should occur meanwhile in the relation between the electric and gas business in the Norfolk area.

II. Joint Expenses.

The larger items of joint expenses were reviewed and discussed with company officials to ascertain the most

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equitable apportionment of such items between the operating departments. A list of such items of expense and our recommendations as to their distribution follow:

Engineers Public Service Company, Inc. supervisory fees:

1940 system gross operating revenues—Electric 71%; Gas 5%; Railway 12%; Bus 12%.

Registrar, transfer agent and dividend disbursing agent fees and expenses:

1940 net income transferred to surplus—Electric 95%; Gas 3%; Bus 2%.

Bond trustee's fees and expenses:

Book amount of property subject to the mortgage (exclusive of railway property) at the close of the year 1940—Electric 87%; Gas 8%; Bus 5%.

Auditing expense (Lybrand, Ross Bros. & Montgomery, and Stone & Webster Service Corporation):

1940 gross operating revenues plus 1940 gross property additions—Electric 74%; Gas 5%; Railway 10%; Bus 11%.

[R. p. 7568] Legal retainer fees:

On basis indicated in letters of June, 1941 from attorneys, the annual amounts being as follows:

Engineers' Exhibit No. 202 (Cont.)

	Hunton, Williams Anderson, Gay & Moore	Venable, Miller Pilcher & Parsons	Williams, Loyall & Taylor
Operating expenses:			
Electric	$24,206.16	$ 4,000.00	$ 720.00
Gas	1,390.92	1,000.00	
Railway	3,186.60	1,000.00	
Bus	3,186.60	1,500.00	
TOTALS	$31,970.28	$ 7,500.00	$ 720.00
Injuries and damages reserves:			
Electric	$ 1,465.80	$ 750.00	$ 576.00
Gas	278.16	325.00	144.00
Railway	3,902.88	2,570.00	1,080.00
Bus	3,902.88	3,855.00	1,080.00
TOTALS	$ 9,549.72	$ 7,500.00	$2,880.00
GRAND TOTALS	$41,520.00	$15,000.00	$3,600.00

Vepcovian magazine expense:

Number of employees allocated to each department—Electric 49%; Gas 7%; Railway 22%; Bus 22%.

Brinks armored car service:

Gross operating revenues in districts served—Electric 64%; Gas 6%; Railway 15%; Bus 15%.

Benefit Association dues:

Number of members of Association allocated to each department—Electric 52%; Gas 5%; Railway 19%; Bus 24%.

Insurance for colored employees:

Number of colored employees allocated to each department—Electric 33%; Gas 17%; Railway 36%; Bus 14%.

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Engineers' Exhibit No. 202 (Cont.)

Dues and subscriptions:

1940 gross operating revenues of system, division or district affected.

[R. p. 7569] Telephone expense:

Richmond, 1940 System gross operating revenues —Electric 71%; Gas 5%; Railway 12%; Bus 12%.

Norfolk, 1940 Norfolk Division gross operating revenues—Electric 63%; Gas 11%; Railway 10%; Bus 16%.

Petersburg, 1940 District gross operating revenues —Electric 94%; Bus 6%.

Portsmouth, 1940 District gross operating revenues—Electric 70%; Bus 30%.

Richmond-Norfolk leased line, 50% electric; 50% 1940 system gross operating revenues—Electric 71%; Gas 5%; Railway 12%; Bus 12%.

Other joint expenses:

System, division or district gross operating revenues of preceding year except for such expenses as may by their nature be more correctly allocated on special bases.

It is the general practice of Engineers Public Service Company, Inc. to assign its expenses to the operating companies which it serves on the basis of their respective gross operating revenues. Departmental gross operating revenues therefore appear to be the logical basis for apportioning the supervisory fee charged to Virginia Electric and Power Company by the service organization.

We believe that the allocation of the fees and expenses of the company's registrar and transfer agent should be related to the contribution of each department of the company to the value of its capital stock; and that the allocation

of fees and expenses of the company's dividend disbursing agent should take into consideration each department's share of the company's net income transferred to surplus. As the amount of net income transferred to surplus, through ts reflection of earning power, is a measure of the value of capital stock, we believe that the amount of all [R. p. 7570] such fees and expenses should be apportioned to operating departments in proportion to each department's contribution to net income of the preceding year. The ratio of net income by departments for the year 1940, excluding the railway division which operated at a loss, as shown by the statement on page 44 hereof, was electric 95%; gas 3% and bus 2%.

Bond trustee's fees and expenses should be apportioned on the basis of each department's property subject to the mortgage at the close of the preceding year. Property subject to the mortgage should be understood to include not only property actually under the mortgage but also additional bondable property not yet brought within the mortgage. Inasmuch as the principal underwriters of the company's last major bond issue did not consider the railway property as adding anything to the security of the bonds, railway property should not be included in the apportionment calculation. After excluding railway property from the book amount of property subject to the mortgage at the close of the year 1940, the ratio of property amounts was electric 87%; gas 8% and bus 5%; which ratio should be used in apportioning bond trustee's fees and expenses for the year 1941.

Since a considerable portion of auditing time is spent in substantiating charges to the property accounts we have combined gross property additions and gross operating revenues to develop a ratio to be used in apportioning audit fees and expenses between the various departments. This ratio should be used in apportioning auditing charges and is applied to the fees of Lybrand, Ross Bros. & Montgomery and Stone & Webster Service Corporation for 1940 in connection with their regular annual examinations.

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Engineers' Exhibit No. 202 (Cont.)

[R. p. 7571] Mr. T. Justin Moore, General Counsel for the company, submitted letters from his firm and from two legal firms in the City of Norfolk, all of which firms receive legal retainers from the company, setting forth their opinions as to the proper apportionment of their retainer fees based upon studies by each firm as to effort expended on behalf of the four operating departments. Copies of the letters received are in the files of the comptroller of the company and serve as the basis for revising the apportionment of legal retainer fees effective July 1, 1941.

The Vepcovian, the employees' magazine, is distributed to all employees of the company. The number of employees in each department therefore represents a proper basis for apportioning the expense of issuing this publication.

Brinks armored car service is employed for the transportation to the banks of company receipts obtained from the various cashiers' offices in Richmond, Norfolk and Portsmouth. The ratio of the combined gross operating revenues of those three districts appears to be a fair basis for distribution to departments of the monthly payments for this service.

The company's monthly contribution to the Employees Benefit Association should be apportioned on the basis of total employees in each department who are members of the Association. Similarly the payment of insurance premiums for colored employees should be apportioned in accordance with the number of such employees allocated to each department.

[R. p. 7572] Dues and subscriptions, which benefit more than one department, should be apportioned generally on the basis of the preceding year's gross operating revenues. The ratios to be used in apportioning specific items are dependent upon whether such items are applicable to the company as a whole, to either of the operating divisions or to any of the four districts rendering other utility service in addition to electric.

It is extremely difficult to determine a basis for the apportionment of telephone expense between departments.

Any detailed studies which might be made would in themselves be based to a considerable extent upon arbitrary ratios. In view of this condition we believe that gross operating revenues would be a fair basis for the distribution of telephone expense, except for rental of the Richmond-Norfolk leased line, in those offices where more than one utility service is rendered. Inasmuch as the general office of the company is in Richmond, system gross operating revenues should be used to provide the ratio of apportionment of telephone expense in that office. As the Norfolk office directs operations of the Norfolk division gross operating revenues of the division should determine the apportionment of expense in that office. Telephone expense in the Petersburg and Portsmouth offices should follow gross operating revenues of the respective districts.

The direct line between the Richmond and Norfolk offices is leased for the primary use of the electric department. That department has priority for the use of the line at any time [R. p. 7573] regardless of who might be using the line at the moment. In view of this priority of usage we recommend that 50 per cent of the rental cost of the line be charged directly to the electric department and that the remaining 50 per cent be apportioned to all departments in the ratio of system gross operating revenues of the preceding year.

We recommend that all other joint expenses be apportioned in the ratio of system, division or district gross operating revenues of the preceding year, depending upon whether the particular item of expense is applicable to the company as a whole, to either division or to a particular district, unless the nature of the expense is such that a special apportionment should be desirable and practical.

III. Interdepartmental Services.

Electricity Furnished to Other Departments: In order to facilitate accounting for interdepartmental consumption

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of electricity we recommend that the company install certain additional meters and rearrange wiring where necessary. In this way an accurate separation of electricity used by the gas, railway and bus departments will be obtained. It also will be necessary to account for electricity consumed in jointly used buildings, such as the general office buildings in those districts furnishing gas or transportation services, and all buildings which are used in connection with merchandise and jobbing activities.

[R. p. 7574] The rate to be used in accounting for interdepartmental use of electricity is the rate recently developed by company engineers based on a demand charge of $1.00 per KW per month, and an energy charge equal to actual monthly costs of production and transmission, including maintenance. We are informed by company officials that the rates thus developed have been designed to represent cost, including fixed charges and interest or return.

In accounting for electricity furnished to other departments the monthly amounts based on consumption and demand should be charged to the appropriate expense accounts of the respective departments including merchandise and jobbing. Credit to the electric department should be made to the appropriate operating expense accounts to the extent of the per kilowatt hour energy charge, and to Account 611, Interdepartmental Rents, for that portion of the monthly charge represented by the demand charge. This method of accounting follows the requirements of the Uniform System of Accounts prescribed by the Federal Power Commission.

Gas Furnished to Other Departments: We are advised that existing metering facilities are generally sufficient to record consumption of gas by other departments, except as to a few locations where additional meters are necessary to segregate consumption as between the railway and bus departments. We suggest that whatever additional meters may be necessary for this purpose be installed. The maxi-

mum demand should be measured [R. p. 7575]monthly for the Norfolk Office Building, and at times of seasonal variations in the other locations.

The greater portion of gas furnished to other departments is used in heating the Company's general office building in Norfolk. The monthly charge for gas supplied by the gas department should be charged to the operating expenses of the other departments in proportion to their use of the building. Gas supplied to other buildings should similarly be charged to the appropriate expense accounts of the departments using such buildings.

Monthly charges for gas supplied to other departments are to be computed on the basis of a rate for such usage developed by company engineers. This rate consists of a demand charge of $4.00 per month for each 100 cubic feet of maximum hourly demand, and a commodity charge equal to the operation and maintenance cost of current monthly production. Company officials advise us that in their opinion these rates are representative of cost, including fixed charges and interest or return; and that such rates are on a comparable basis with the rates charged to the gas and transportation departments for the use of electricity.

The monthly credit to the gas department based on the above rates is to be made to the appropriate production operation and maintenance accounts to the extent of the commodity charge, and to Account 611, Interdepartmental Rents, to the extent of the demand charge.

[R. p. 7576] *Free Transportation Furnished to Electric and Gas Employees:* In order to ascertain the use by employees of transportation passes, 1,232 employees in the districts in which the company operates transportation facilities were questioned as to the number of times per week they rode on company street cars and buses. The results of this canvass were as follows:

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Engineers' Exhibit No. 202 (Cont.)

District	Number of Employees Canvassed	Average Number of Rides per Week
Richmond	519	14
Norfolk	524	15
Petersburg	133	11
Portsmouth	56	14
Total	1,232	

The per passenger amount of cash and token fares received by the transportation department during 1940 when applied to the above average number of rides indicates the value of the free passes to employees to be as follows:

District	Average Rides per Week	Average Cash and Token Fares per Passenger	Weekly Value of Pass	Quarterly Value of Pass (13 weeks)
Richmond	14	7.255¢	$1.02	$13.26
Norfolk	15	8.333¢	1.25	16.25
Petersburg	11	6.25¢	.69	8.97
Portsmouth	14	6.25¢	.88	11.44

We recommend that the foregoing values be used in computing the interdepartmental charges for free transportation for the balance of 1941.

As free passes are issued to employees quarterly, the basis of the charges to the electric and gas departments and to [R. p. 7577] electric and gas merchandise and jobbing activities should be revised at the end of each quarterly period to provide a more accurate accounting for the succeeding period. The pay roll accounting department should determine, at the end of each quarterly period, the number of employees allocated to the electric and gas departments and to electric and gas merchandise and jobbing activities in those districts in which the company operates transportation facilities. Such employees will include those

employed solely in electric and gas operations or in merchandise and jobbing activities and that portion of joint employees which is allocated to such operations or activities. The above-mentioned quarterly value of passes multiplied by the number of employees allocated to the above-mentioned groups in the four transportation districts will be the amounts to be charged to those departments or activities during the succeeding three months' period. One-third of each of the amounts should be recorded monthly.

Credits to the railway and bus departments should be made in the ratio of revenues from cash and token fares of the railway and bus departments in the respective districts for the preceding year, unless any marked change should occur in the relation between railway and bus revenues in a particular district, in which event more recent ratios should be computed and used.

We recommend that the accounting for free transportation furnished to electric and gas employees for the quarterly period from July 1 to September 30, 1941 be based upon computations made by us during our recent examination, which are based upon an [R. p. 7578] analysis of the company's pay roll as at May 31, 1941. The monthly charges and credits for free transportation during this period would then be as follows:

Districts	Charges to Operating Expenses		
	Total	Electric	Gas
Richmond	$11,324.04	$11,191.44	$ 132.60
Norfolk	12,561.25	8,271.25	4,290.00
Petersburg	1,067.43	1,067.43	.....
Portsmouth	205.92	205.92	.....
Quarterly totals	$25,158.64	$20,736.04	$ 4,422.60
Monthly charges to operating expenses, one-third of above amounts	$ 8,386.21	$ 6,912.01	$ 1,474.20

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Engineers' Exhibit No. 202 (Cont.)

	Charges to Merchandising and Jobbing		
	Total	Electric	Gas
Richmond	$ 132.60	$ 132.60	.....
Norfolk	260.00	195.00	$ 65.00
Petersburg	26.91	26.91	.....
Portsmouth	22.88	22.88	.....
Quarterly totals	$ 442.39	$ 377.39	$ 65.00
Monthly charges to merchandise and jobbing, one-third of above amounts	$ 147.46	$ 125.80	$ 21.66
Total monthly charges to operating expenses and merchandise and jobbing	$ 8,533.67	$ 7,037.81	$ 1.495.86

Credits to operating revenues in ratio of revenues from cash and token fares in 1940:

Districts	Departments to Be Credited		
	Total	Railway	Bus
Richmond — Railway 60%; Bus 40%	$11,456.64	$ 6,873.98	$ 4,582.66
Norfolk—Railway 47%; Bus 53%	12,821.25	6,025.99	6,795.26
Petersburg—Bus 100%	1,094.34	.....	1,094.34
Portsmouth—Bus 100%	228.80	.....	228.80
Totals	$25,601.03	$12,899.97	$12,701.06
Monthly credits, one-third of above amounts	$ 8,533.67	$ 4,299.99	$ 4,233.68

[R. p. 7579] Since it is impracticable to compute the use value of interurban passes furnished to employees, we recommend that a flat charge to electric department operations and credit to bus department revenues be made monthly on the basis of $1,000 per year for such passes.

Company Advertising on its Cars and Buses: The company has granted to National Transitads, Inc., the exclusive and complete advertising rights upon all of its transportation and station facilities. However, the com-

pany reserves for its own promotional use all exterior space and certain interior space with respect to each of its vehicles. Exterior space, with minor exceptions, is used only by and for the benefit of the transportation department, while one interior space (11" x 28") is used solely by the electric and gas departments. One additional interior space (11" x 18") contains the Cepco news bulletin, which includes advertising matter relating only to the activities of the transportation department.

We do not believe it either feasible or necessary to make any accounting within the transportation department for the use of space devoted to the services of that department, inasmuch as the railway and bus divisions are a unified operation with a system of free transfers, the gross revenues of each division are approximately equal, and the advertising is generally of a promotional nature directed towards the use of both street cars and buses.

In accounting for the use of the interior space, it is necessary to segregate the amounts chargeable to electric and gas [R. p. 7580] operations in accordance with the usage by each department. The value of the space to the company should, in our opinion, be measured by the net amount the transportation department would receive if the space were rented, through the advertising agency, to an outside advertiser. This amount is computed as follows:

	Total	Richmond, Petersburg, and Interurban	Norfolk	Portsmouth
Monthly rate to outside advertisers under 12 months' contract	$480.40	$264.90	$190.50	$25.00
Less, 10% discount for 60 months' contract	48.04	26.49	19.05	2.50
Net monthly cost to advertiser	432.36	238.41	171.45	22.50
Less, 20% agency commission	86.47	47.68	34.29	4.50
	345.89	190.73	137.16	18.00
Less, 50% due agency under contract	172.94	95.36	68.58	9.00
Net monthly revenue to transportation department	$172.95	$ 95.37	$ 68.58	$ 9.00

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Engineers' Exhibit No. 202 (Cont.)

By taking operations of the year 1940 to illustrate the method of recording this advertising, it is found that during that year the electric and gas departments used the exterior space on Norfolk street cars for a period of one month; and that the interior space on Norfolk street cars and buses was used by the gas department for a period of two and one-quarter months and by the electric department for the balance of the year. All other exterior space for advertising throughout the system related to the transportation department. Assuming the exterior space has 50% greater than [R. p. 7581] the interior space, which is the opinion of the company's advertising agency as to a fair differential, the charges to the electric and gas departments for the year 1940 would be as follows:

	Per Month	Year 1940
Electric department:		
Richmond, Petersburg and Interurban—12 months	$ 95.37	$1,144.44
Portsmouth—12 months	9.00	108.00
Norfolk, exterior space—¼ month	102.87	25.72
Do interior space—9¾ months	68.58	668.65
Total		$1,946.81
Gas department:		
Norfolk, exterior space—¾ month	102.87	$ 77.15
Do interior space—2¼ months	68.58	154.30
Total		$ 231.45
Total electric and gas departments		$2,178.26

The credit to the transportation department should be allocated to the railway and bus divisions in the ratio of passengers carried by each during the year 1940, viz:

Engineers' Exhibit No. 202 (Cont.)

	Total	Railway	Bus
Richmond, Petersburg and Interurban	100%	58%	42%
Norfolk	100%	49%	51%
Portsmouth	100%		100%

By applying these ratios to the foregoing amounts of revenue the following credits to the railway and bus divisions for the year 1940 are obtained:

	Total	Railway	Bus
Richmond, Petersburg and Interurban	$1,144.44	$ 663.78	$ 480.66
Portsmouth (bus only)	108.00		108.00
Norfolk, exterior space (railway only)	102.87	102.87	
Norfolk, interior space	822.95	403.25	419.70
Total	$2,178.26	$1,169.90	$1,008.36

[R. p. 7582] The ratio of passengers carried (exclusive of transfers) should be determined for each calendar year, and used for the calculation of the monthly credit during the succeeding year.

IV. Joint Use of Facilities.

General Office Buildings: The company's general office buildings in Richmond, Norfolk and Petersburg are jointly used in the operations of more than one department. We believe that the most practical method of accounting for the joint use of these facilities would be to classify the properties as Common Utility Plant, as is permitted by the uniform system of accounts to which the company is subject, provided the proper jurisdictional approval is obtained. The undivided interest of each department in the common property would then be recorded in subsidiary accounts, the allocation being based upon the ratio of usage by each department. Each departmental ratio, to the extent ap-

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Engineers' Exhibit No. 202 (Cont.)

plicable, would be subdivided to show the relation between space occupied in its primary operations and space devoted to merchandise and jobbing activities.

The relative usage of these three general office buildings by the various departments as at May 31, 1941 was as follows:

[R. p. 7583]	Richmond Pct.		Norfolk Pct.		Petersburg Pct.	
Electric:						
Operations	82.5		54		71	
Merchandise and jobbing	3.5	86	9	63	13	84
Gas:						
Operations	2.0		20			
Merchandise and jobbing	—	2	4	24	—	
Railway		6		6		
Bus		6		7		16
Total		100		100		100

The above ratios represent the relative amounts of floor space used by each department, which have been obtained by actual measurement and reference to building plans and diagrams. Where a particular floor space is jointly used by more than one department, such as an office occupied by a joint employee, the space is allocated between departments on the same basis as the employee's compensation is allocated for pay roll purposes. We recommend that the foregoing ratios be used in determining the interest of each department in these buildings, and in distributing the operating expenses and fixed charges applicable thereto.

Separate operating and maintenance expense accounts should be provided to record the expenses pertaining to each building, and should be cleared monthly to the various departments and to merchandise and jobbing in the same usage ratios as those developed for the particular building. Taxes, insurance and depreciation on buildings included in the common utility plant grouping, also electricity and gas

Engineers' Exhibit No. 202 (Cont.)

furnished by those departments to light or heat the buildings, may be allocated directly to the respective departments or activities in the same ratios as above.

In those districts and communities in which the company operates only an electric business it likewise is necessary to [R. p. 7584] compute the relative usage of office buildings, both company owned and rented, as between electric operations and merchandise and jobbing activities in order that a proper portion of operating and maintenance expenses and fixed charges or rentals may be charged to merchandise and jobbing expense. A list of such office buildings and their relative usage based on measured floor area is as follows:

	Usage		
	Electric		
	Operations	Merchandise and Jobbing	Bus
Company Owned Buildings:			
Ashland	76 pct	24 pct	
Roanoke Rapids	81	19	
Williamsburg	98	2	
Rented Buildings:			
Ahoskie	63	37	
Fredericksburg	79	21	
Hopewell	59	41	
Portsmouth	84	13	3 pct
Smithfield	61	39	
Suffolk	77	23	
Tappahanock	67	33	
Virginia Beach	86	14	
Williamston	87	13	

Monthly charges should be made to merchandise and jobbing for all operating and maintenance expenses and fixed charges applicable to company owned buildings and for operating expenses and rentals of rented building in the respective ratios of usage indicated above.

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Engineers' Exhibit No. 202 (Cont.)

The primary operating ratios shown in the two foregoing tables need to be subdivided to give recognition to the building areas used for stores and garages. These further subdivisions are shown later herein under the caption "Storerooms, garages and equipment," and will furnish a basis for charging stores and transportation clearing accounts with their proper share of building operating expenses, maintainance, rentals and fixed charges.

[R. p. 7585] *Office Furniture and Equipment:* We propose that the furniture and equipment located in office buildings at Richmond, Norfolk and Petersburg be classified with those buildings as common utility plant. Taxes, insurance and depreciation on the furniture and equipment at each of these locations would be distributed upon the basis of the usage ratio for the particular building as is explained under the immediately preceding caption herein.

With respect to furniture and equipment in other office buildings, whether owned or rented, we recommend that the building usage ratios also be applied in allocating the related taxes, insurance and depreciation.

In the case of most of the buildings the building ratios shown under the preceding caption require some adjustment to exclude space used for storerooms and garages. Furniture and equipment in storerooms and garages is accounted for separately, and the carrying charges thereon are distributed to stores and transportation clearing accounts.

Transportation Buildings: Thirteen buildings in Richmond and Norfolk are being used jointly by the railway and bus departments. The economy in operations occasioned by joint usage of these buildings and the impracticability of segregating certain of the functions of the transportation department between railway and bus operations prohibits the limiting of the use of any of these building to a single department.

Engineers' Exhibit No. 202 (Cont.)

In order that the apportionment between these departments of building operating expense, maintenance, taxes, insurance and [R. p. 7586] depreciation may be simplified we recommend that the book cost of the individual buildings be carried either in railway plant or in bus plant in such a manner as will cause each department's investment in such buildings to approximate that department's investment in such buildings to approximate that department's proportion of usage of the thirteen buildings as a whole. An equitable distribution of expenses and fixed charges would then be obtained by charging the operations of each department with the operating expenses, maintenance, taxes, insurance and depreciation pertaining to those buildings which are recorded in the plant account of the respective department.

Officials of the transportation department advised us as to the proportionate usage by the railway and bus departments of each of the thirteen buildings. The ratio of usage of each building was applied to the book value of the respective building and thus a ratio of usage of the thirteen buildings as a whole was developed. By transferring the book values of certain buildings, designated by us to company officials, from the plant account of one department to that of the other the ratio of investment in the thirteen buildings will closely parallel the ratio of usage of such buildings. We recommend that these transfers be made.

Storerooms, Garages and Equipment: The general storeroom in Richmond, which is used for storage of electric, railway and bus supplies, occupies a portion of the electric distribution building. Based upon floor area 46% of the building is used by the electric distribution department and 54% is used for storeroom purposes. In order to obtain a proper allocation between departments [R. p 7587] of all expenses and fixed charges applicable to the building specific accounts should be used to record building operation and maintenance expenses. These accounts should be

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cleared monthly to electric operations and to stores expense clearing account in the ratio of 46% and 54%, respectively. Fixed charges including taxes, insurance and depreciation should be charged to stores expense clearing account to the extent of 54% of such items. As stores expense is distributed from the clearing account on the basis of stores issued we believe that the above procedure will serve as a practical method of allocation to each operating department and to merchandise and jobbing expense all costs applicable to the storeroom.

Similar procedure should be followed with respect to all other storerooms in the company's system in order that building operation and maintenance expenses and fixed charges may be charged to the proper departments or to merchandise and jobbing activities through the distribution of the stores expense clearing account.

Our review of the company's procedure for the storage and maintenance of automotive equipment indicates that any joint usage of buildings in that connection is immaterial. In general automotive equipment assigned to a specific department is housed in buildings of that department. General pool automobiles in both Richmond and Norfolk are stored in rented garages. Rentals for such garages are charged to the transportation expense clearing account.

We believe that a more equitable reflection of transportation costs, which are distributed on a use mileage basis, would be attained if, in addition to operating expenses in connection with [R. p. 7588] company owned garages and rentals paid for the use of other garages, fixed charges also were included in charges to the transportation expense clearing account. Such fixed charges would include building maintenance, taxes, insurance and depreciation of company owned garages. We recommend that all such costs be computed and charged monthly to the transportation expense clearing account.

Engineers' Exhibit No. 202 (Cont.)

In an earlier section hereof entitled "General Office Buildings" the ratio of space in each building devoted respectively to operations and merchandise and jobbing is shown. The percentages indicated as applicable to "Operations" include building space utilized for storerooms and garages. In order that charges may be made to stores and transportation expense clearing accounts for building operation and maintenance expenses, rentals and fixed charges properly allocable to the storerooms and garages, the following ratios of use are submitted for the buildings to which such allocation would apply:

	Operations			
			Charged Through Clearing Accounts	
	Total Pct.	Charged Direct Pct.	Stores Pct.	Transportation Pct.
Company owned buildings:				
Richmond	82.5	79.5	2.5	.5
Norfolk	54	51	3	
Petersburg	71	62	9	
Roanoke Rapids	81	77	4	
Williamsburg	98	46	14	38
Rented buildings:				
Fredericksburg	79	62	17	
Hopewell	59	52	7	
Portsmouth	84	54	6	24
Suffolk	77	73	4	
Virginia Beach	86	65	6	15
Williamston	87	66	14	7

[R. p. 7589] *Heating Plant (Reservoir Terminal)*: The heating plant located at the Reservoir terminal in Richmond furnishes heat to buildings used by the electric, railway and bus departments. We propose that this building and the equipment therein be classified as common utility plant in the same manner as the three general office buildings previously referred to herein. The allocation to departments of all costs of operation, maintenance, taxes, etc. should be on the basis of the use by each department of the heating plant. Company engineers determined the departmental use of the heating plant by computing the equivalent

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direct radiation of radiators installed in each building. This present ratio of use by departments is as follows:

Electric 16%; Railway 29%; Bus 55%.

The allocation to departments of the company's investment in the heating plant should be on the above ratio.

In apportioning, between departments, the operating expenses, maintenance, insurance, taxes and depreciation applicable to the heating plant, a portion of such expenses should be charged each to stores and transportation expense clearing accounts, because the garage and storeroom forming a part of the electric distribution building are heated by this plant. The complete allocation would therefore be made on the following basis:

Electric operating expenses	5 pct.
Clearing accounts:	
Stores expense	1
Transportation expense	10
Railway operating expenses	29
Bus operating expenses	55
	100

[R. p. 7590] *Pool Automobiles:* In addition to automobiles and trucks used by one department and recorded in the plant accounts of that department the company maintains general pools of automobiles for use by employees engaged in work for any of the operating departments. Such pool automobiles are at present recorded in electric plant.

The expense of operating automobiles and trucks, and maintenance, taxes, insurance and depreciation thereon, are charged to transportation expense clearing account and distributed monthly to the operating departments or to merchandise and jobbing activities on the basis of mileage reported on mileage tickets prepared by the driver each time a vehicle is used. In this manner each activity of the company is being charged an equitable proportion of the

cost of operating and maintaining the equipment. However, the present plant accounting gives no recognition to the diversity of use of pool automobiles. We accordingly recommend that investment equilibrium between departments be attained by transferring a number of pool automobiles from electric plant to the plant accounts of the gas, railway and bus departments.

Assuming the usage of pool automobiles during the month of May, 1941, to be representative of their average usage, the mileage reports of all pool vehicles for that month were classified as to departmental usage, and the use by each department determined by ascertaining the ratio of the mileage of each department to the total mileage of pool vehicles for the month. The ratio thus developed indicated that in each district where utility service other than [R. p. 7591] electric is furnished, the use of pool automobiles by departments other than electric was less than or only slightly greater than the average use of one pool automobile. Therefore we recommend that transfers of automobiles between plant accounts be made as follows:

Richmond:

Transfer 3 automobiles from electric plant, one each to gas, railway and bus plant.

Norfolk:

Transfer 3 automobiles from electric plant, one each to gas, railway and bus plant.

Petersburg:

Transfer one automobile from electric plant to bus plant.

Portsmouth:

Transfer one automobile from electric plant to bus plant.

It should be understood that the above transfers are only for the purpose of causing each department to bear

its proportionate share of the investment in the automobile pool. Those cars transferred to departments other than electric need not be limited in their use to the departments to which they have been assigned but will still be available in the same manner as any other unit in the general pool.

Of the six combination service trucks used in the Norfolk district, four are recorded in electric department plant and two are recorded in gas department plant. This accounting should be continued as the apportionment of investment between departments is approximately in the ratio of the number of electric and gas meters located in the district covered by such trucks.

[R. p. 7592] *Jointly Used Poles:* The company's recent field inventory of electric plant indicates that there are 5,944 poles in the company's system being jointly used by the electric and railway departments, and that the joint use of approximately 200 of these poles consists merely of clearance or guy attachments. Under the company's agreement with the Chesapeake & Potomac Telephone Company of Virginia for joint use of poles, such attachments are considered to be free, in that they alone do not subject the pole to the annual rental charge.

The electric department has the predominant use of by far the greater number of jointly used poles, and this predominance will undoubtedly show a gradual increase from year to year, due to expansion of the electric business and abandonment of sections of railway line.

Consideration has previously been given by the company to the desirability of carrying a jointly used pole in the plant account of the department which has the predominant use of the pole. Because of the difficulty which would be experienced in keeping abreast with changes in pole attachments which might throw the predominant use from one department to the other, and because the ownership of the pole will ultimately rest in the electric department, it is believed that as a practical accounting matter all

jointly used poles should be carried in the electric plant account. We therefore recommend that all such poles be carried in the company's electric plant account, where they are probably now recorded, although the company's studies have not yet progressed to the point of assuring this to be a fact. Also all pole attachments are to be carried in the account of the department for whose use they are attached. [R. p. 7593] This accounting will require that an annual rental charge be made to the railway department for its use of all jointly used poles, and that each department service its own attachments.

Under the company's agreement with the Chesapeake & Potomac Telephone Company of Virginia for joint use of poles, an annual charge of $1.25 per pole is made for all jointly used poles exclusive of those having only free attachments. We believe this rate to be a fair measure of the rental charge to be made to the railway department and recommend that it be used for this purpose.

There are 1,701 jointly used poles located on railway rights-of-way. We believe it would be reasonable to consider the electric department's use of the right-of-way for joint pole location as an offset to the railway department's attachments to the poles and thus eliminate such poles from the rental adjustment.

The total of 5,944 jointly used poles reduced by 200 poles having only free attachments and by 1,701 jointly used poles on railway rights-of-way, leaves a balance of 4,043 poles subject to the rental charge. This number of poles at the rate of $1.25 per pole produces an annual rental of $5,053.75 to be charged to the railway department by the electric department.

Manholes: The recent inventory of electric plant, taken in connection with the company's determination of original cost of its electric plant, disclosed that in the company's underground distributiion systems in the cities of Richmond and Norfolk there were respectively 136 and 118 manholes,

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a total of 254, being jointly used by the electric and railway departments. It is believed that [R. p. 7594] all such jointly used manholes are recorded in the plant account of the electric department, and if such should not be the case they will be so classified.

A count by engineers of the duct outlets contained in the jointly used manholes indicated that 13% of all ducts were railway ducts. In arriving at this proportion of usage all spare or unused ducts were considered to be for the use of the electric department in view of the expansion of that department and the virtual certainty that there will be no increase in the number of the railway ducts.

Company engineers estimate that these manholes have an average cost of $384, or a total of $97,536 for the 254 jointly used manholes. Of this amount 13%, or $12,680, represents the investment applicable to that portion of the manholes being used by the railway department.

The railway department's share of the fixed charges on the jointly used manholes, viz: 13% of taxes, depreciation and interest, amounts to $960. We recommend that this amount be charged the railway department annually for its use of the manholes, and that the charge be appropriately adjusted at such times as the railway departments proportionate use of the duct outlets changes.

Jointly Used Rights-of-Way: The company owns three railway rights-of-way in each of the cities of Richmond and Norfolk on which are located certain poles used jointly by the electric and railway departments. As all jointly used poles are to be recorded in electric plant such poles and rights-of-way involve the joint usage by each [R. p. 7595] department of the facilities of the other department. We believe that a fair basis of accounting for such interdepartmental use is to consider the use by the railway department of electric poles as an offset to the use by the electric department of railway rights-of-way on the assumption that mutually equivalent benefits are received by each department.

Engineers' Exhibit No. 202 (Cont.)

In the city of Norfolk, the gas department has installed approximately four miles of gas mains in the railway right-of-way of the Bay Shore line to Ocean View. The width of the railway right-of-way is from 20 to 25 feet, of which approximately 2 feet represents the space used by the gas department. This ratio of use by the gas department applied to the investment in the right-of-way indicates approximately $9,000 as being applicable to that portion of the right-of-way used by the gas department. We recommend that the round amount of $500 be used as the annual rental charge to the gas department, which represents a return of approximately 6% on the railway department's investment in that portion of the right-of-way used by the gas department.

V. Merchandise and Jobbing

Pay Roll: In our review of pay rolls as at May 31, 1941 we discussed with company executives having the requisite knowledge and responsibility the apportionment of salaries of all employees who devote any portion of their time to merchandise and jobbing activities. The salaries of sales department employees are being [R. p. 7596] allocated on the basis of a review made by the sales manager during February, 1941, and have been adjusted to give effect to the recommendations made by us which are set forth in Appendix A hereto. We understand that allocations are adjusted when the functions of an employee change and that a general review is made of all allocations at least annually.

Accounting employees, particularly in the district offices, perform the merchandise and jobbing accounting as a part of their regular duties in connection with electric department operations. Based on our discussions with company executives and a review of the duties of such accounting employees we recommend that the general policy of charging 10% of the district accountant's salary and 20% of

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one bookkeeper's salary to merchandise and jobbing be followed in all district office pay rolls, except in certain instances where the division of duties is such that a special apportionment is needed to provide a more equitable distribution.

Heretofore the company has not charged any portion of general and administrative salaries to merchandise and jobbing activities. We recommend that a charge be made for a portion of the salaries of certain executives, the supervisor of customers' accounting and assistant, and general employees, such as general accounting, pay roll, statistical, tax, purchasing, insurance, stenographic, filing, messengers and mailing, based on the ratio of gross merchandise revenues to total revenues of the preceding year. Such ratios based on revenues of the year 1940 were 1% for electric merchandise and jobbing and 3/10ths of 1% for gas merchandise and jobbing.

[R. p. 7597] The salaries of appliance service men have been allocated generally on a time voucher basis except for those in the Richmond district. We recommend that these Richmond employees also be placed on a time voucher basis. We believe that all servicing of appliances sold by the company within the guarantee period should be considered as chargeable to merchandise and jobbing activities.

Joint Expenses: The allocation of joint expenses referred to in a preceding section herein should be further refined, where applicable, to introduce the factors of merchandise and jobbing gross revenues and number of employees where the ratios are dependent in whole or in part upon gross revenues and number of employees, respectively.

Telephone expense in districts other than for which ratios are given should be allocated on the applicable district gross revenue basis.

Interdepartmental Services: We recommend that electricity and gas furnished to light and heat office buildings be allocated to merchandise and jobbing in the ratio of

Engineers' Exhibit No. 202 (Cont.)

building usage by such activities. The ratios of usage of the various offices have been stated previously in Section IV of this report, as has the charge for free transportation furnished to merchandise and jobbing employees in Section III.

Joint Use of Facilities: The ratios of usage of various buildings in merchandise and jobbing activities and our comments [R. p. 7598] with respect to the apportionment of building operating expenses and fixed charges are set forth in Section IV of this report.

Adjustments to 1940 Net Loss: The merchandise and jobbing income statement for the year 1940 appended to this report includes adjustments giving effect to the recommendations made herein. A reconciliation of the net loss from merchandise and jobbing for 1940 as shown by the company's books with that shown on the annexed statement follows:

	Total	Electric	Gas
Net loss per books	$19,662.83	$23,394.74	$3,731.91*
Add:			
Reapportionment of joint pay rolls	37,468.53	35,801.82	1,666.71
Reapportionment of joint expenses	3,904.06	3,169.60	734.46
Electricity and gas furnished to buildings	2,616.60	2,207.81	408.79
Free transportation for employees	1,746.95	1,486.95	260.00
Joint use of buildings	13,331.29	11,477.82	1,853.47
Reapportionment of miscellaneous income	359.05	276.19	82.86
Net loss per statement annexed	$79,089.31	$77,814.93	$1,274.38

* Net profit.

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Engineers' Exhibit No. 202 (Cont.)

VI. Bases of Apportionment of Joint Items Should be Reviewed Periodically.

All ratios of apportionment (except those based solely on gross revenues) and the underlying data on which they are grounded, will need to be reviewed periodically for possible adjustment to reflect changing conditions. In the ordinary course of events this review could be made during the latter part of each [R. p. 7599] year so that any resulting revisions could become effective at the beginning of the succeeding year, when new revenue ratios will also be established.

Any important change in operations or functions during a year which would have a material bearing upon these ratios should be studied, and new ratios should be developed to cover the particular situation and made effective promptly without waiting for the end of the year. Such a change might arise, for instance, from a substantial shift of departmental usage in an office or other jointly used building. Also if a section of street railway is abandoned the gross revenue ratios may be sufficiently affected to require their immediate revision.

As stated previously herein, the pay roll study to determine the basis of distribution of the charge for free transportation should be made quarterly, when the passes are issued. We understand that with the procedure already developed the quarterly study will not place an onerous burden on the pay roll department.

Effect of the Foregoing Recommendations upon the Company's Departmental Income for the Year 1940.

We are appending hereto a statement of departmental income of the company for the year 1940, also a statement of merchandise and jobbing income for that year, both statements having been adjusted to give effect to the rec-

Engineers' Exhibit No. 202 (Cont.)

ommendations made herein. A similar statement segregates the railway and bus divisions of the transportation department.

[R. p. 7600] A statement has also been included which reconciles the net operating revenues, as adjusted, with the net operating revenues, before depreciation, as shown by the company's books, and indicates the nature of the adjustments. A further description of the merchandise and jobbing adjustments is contained in the section of this report dealing with that activity.

Very truly yours,

LYBRAND, ROSS BROS. & MONTGOMERY.

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Engineers' Exhibit No. 202 (Cont.)

[R. p. 7601] **VIRGINIA ELECTRIC AND POWER COMPANY**

Departmental Income Statement

Year Ended December 31, 1940

as adjusted to give effect to the recommendations made in this report

	Total	Interdepartmental Eliminations	Electric Department	Gas Department	Transportation Department
Operating revenues	$20,992,213.12	$205,765.89	$15,016,831.44	$1,056,999.73	$5,124,147.84
Operating expenses and taxes:					
Operation	$ 7,766,205.81	$202,719.64	$ 4,663,952.84	$ 455,895.51	$2,849,077.10
Maintenance	1,659,501.25		727,521.65	82,504.55	849,475.05
Depreciation (see Note)	2,314,825.62		1,377,987.14	112,434.08	824,404.40
Taxes—Federal income	1,320,000.00		1,193,148.00	47,520.00	79,332.00
—Other	1,931,400.03		1,433,471.50	84,460.18	413,468.35
Total operating expenses and taxes	$14,991,932.71	$202,719.64	$ 9,396,081.13	$ 782,814.32	$5,015,756.90
Net operating revenues	$ 6,000,280.41	$ 3,046.25	$ 5,620,750.31	$ 274,185.41	$ 108,390.94
Other income:					
Merchandise and jobbing	76,043.06*	$ 3,046.25	$ 77,814.93*	$ 1,274.38*	
Miscellaneous	33,980.33*		29,542.11*	2,540.67*	$ 1,897.55*
Total other income, net loss	$ 110,023.39*	$ 3,046.25	$ 107,357.04*	$ 3,815.05*	$ 1,897.55*
Balance	$ 5,890,257.02		$ 5,513,393.27	$ 270,370.36	$ 106,493.39
Interest and amortization:					
Interest on long-term debt	$ 1,425,375.05		$ 1,241,625.05	$ 118,125.00	$ 65,625.00
Other interest	16,167.80		13,625.00	2,542.80	
Amortization of discount and expense	320,120.88		275,304.04	28,810.83	16,006.01
Total interest and amortization	$ 1,761,663.73		$ 1,530,554.09	$ 149,478.63	$ 81,631.01
Net income	$ 4,128,593.29		$ 2,982,839.18	$ 120,891.73	$ 24,862.38

* Indicates red figure.

NOTE: The amounts provided for depreciation during 1940 were approximately $242,000 less than the depreciation deductions claimed on the federal income tax return of the company. In addition to the amounts shown above as depreciation, the company accrued $4,345.30 charged above to merchandise and jobbing and $80,829.08 for depreciation on automobiles and trucks, garages, storerooms and equipment which depreciation has been assigned to other accounts through distribution of clearing accounts.

Engineers' Exhibit No. 202 (Cont.)

[R. p. 7602]

VIRGINIA ELECTRIC AND POWER COMPANY

Transportation Department Income Statement

Year Ended December 31, 1940

as adjusted to give effect to the recommendations made in this report

	Total	Railway Division	Bus Division
Operating revenues	$5,124,147.84	$2,494,812.17	$2,629,335.67
Operating expenses and taxes:			
Operation	$2,849,077.10	$1,268,721.73	$1,580,355.37
Maintenance	849,475.05	460,799.41	388,675.64
Depreciation	824,404.40	580,707.24	243,697.16
Taxes—Federal income	79,332.00	64,548.00	14,784.00
Other	413,468.35	163,112.83	250,355.52
Total operating expenses and taxes	$5,015,756.90	$2,537,889.21	$2,477,867.69
Net operating revenues	$ 108,390.94	$ 43,077.04*	$ 151,467.98
Other income	1,897.55*	4,241.39	6,138.94*
Balance	$ 106,493.39	$ 38,835.65*	$ 145,329.04
Interest and amortization:			
Interest on long-term debt	$ 65,625.00	.....	$ 65,625.00
Amortization of discount and expense	16,006.01	.....	16,006.01
Total interest and amortization	$ 81,631.01	.....	$ 81,631.01
Net income	$ 24,862.38	$ 38,835.65*	$ 63,698.03

* Indicates red figure.

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Engineers' Exhibit No. 202 (Cont.)

[R. p. 7603]

VIRGINIA ELECTRIC AND POWER COMPANY

Merchandise and Jobbing Income Statement

Year Ended December 31, 1940

as adjusted to give effect to the recommendations made in this report

	Total	Electric	Gas
Gross revenues:			
Merchandise and jobbing sales (see note)	$359,046.40	$292,676.30	$66,370.10
Rent from appliances	929.80	322.73	607.07
Total gross revenues	$359,976.20	$292,999.03	$66,977.17
Cost of merchandise and jobbing sales (see note)	262,109.23	212,918.61	49,190.62
Gross profit	$ 97,866.97	$ 80,080.42	$17,786.55
Deductions from gross profit	6,785.17	5,213.99	1,571.18
Net profit	$ 91,081.80	$ 74,866.43	$16,215.37
Uncollectible accounts	5,391.06	4,140.08	1,250.98
Balance	$ 85,690.74	$ 70,726.35	$14,964.39
Selling and administrative expenses:			
Supervision	$ 12,002.79	$ 11,588.34	$ 414.45
Salesmen's salaries and commissions	28,412.31	25,268.55	3,143.76
Customers' accounting and collecting expenses	14,271.25	12,413.85	1,857.40
General administrative salaries and expenses	11,280.50	9,158.77	2,121.73
Advertising	22,273.25	19,707.84	2,565.41
Demonstrations	4,910.40	4,466.60	443.80
Insurance	457.16	402.05	55.11
Rents and building expenses	8,608.06	7,788.90	819.16
Inventory adjustments	1,631.06	1,312.66	318.40
Taxes	14,536.15	12,029.94	2,506.21
Depreciation	4,345.30	3,663.77	681.53
Other merchandise and jobbing expense	42,051.82	40,740.01	1,311.81
Total selling and administrative expenses	$164,780.05	$148,541.28	$16,238.77
Net loss	$ 79,089.31	$ 77,814.93	$ 1,274.38
Note:			
Deferred gross profits on instalment sales of merchandise, payments under which became due in the year 1940, are included above in the following accounts:			
Merchandise sales	$ 72,269.91	$ 68,801.06	$ 3,468.85
Cost of merchandise sales	38,332.86	36,937.55	1,395.31
Gross profit	$ 33,937.05	$ 31,863.51	$ 2,073.54

The company discontinued the practice of deferring profits on instalments sales made subsequent to December 31, 1937, and the balance of $35,537.82 of such deferred gross profits will be absorbed in income of the year 1941.

Engineers' Exhibit No. 202 (Cont.)

[R. p. 7604] VIRGINIA ELECTRIC AND POWER COMPANY

Adjustments to Departmental Net Operating Revenues
For the Year Ended December 31, 1940
to give effect to recommendations made in this report

	Total	Electric Department	Gas Department	Transportation Department		
				Total	Railway Division	Bus Division
Net operating revenues, per books, before depreciation	$8,276,983.23	$6,741,082.06	$390,540.43	$1,145,360.74	$701,021.77	$444,338.97
Adjustments to give effect to recommendations made herein:						
Joint pay rolls and expenses:						
Reapportionment of joint pay roll and expenses on basis of gross operating revenues of preceding year	.....	75,379.72	449.75	75,829.47*	24,372.71*	51,456.76*
Reapportionment of joint pay roll on basis of work and time studies	.....	18,801.18	13,458.17*	5,343.01*	1,944.68*	3,398.33*
Reapportionment of company's contributions to Employees' Benefit Association on basis of membership from each department	.....	13,139.62	.....	13,139.62*	4,840.91*	8,298.71*
Reapportionment of certain joint expenses on basis of special studies	.....	968.18	408.69*	559.49*	186.18	745.67*
Portion of above adjustments applicable to merchandise and jobbing activities	41,372.59	38,971.42	2,401.17	.....	.....	.....
Interdepartmental services:						
Electricity furnished to other departments, additional charge	.....	119,766.91	6,389.29*	113,377.62*	106,053.06*	7,324.56*
Gas furnished to other departments	.....	2,962.08*	3,990.11	1,028.03*	412.85*	615.18*
Free transportation furnished to electric and gas employees	.....	83,225.29*	11,318.20*	94,543.49	46,532.74	48,010.75
Electric and gas advertising in street cars and buses	.....	1,946.81*	231.45*	2,178.26	1,169.90	1,008.36
Portion of above adjustments applicable to merchandise and jobbing activities	4,363.55	3,694.76	668.79	.....	.....	.....
Joint use of facilities:						
Reallocation of operating and maintenance expenses, rentals, insurance, taxes and depreciation:						
General office buildings, furniture and equipment	.....	20,834.98	9,214.94*	11,620.04*	3,850.07*	7,769.97*
Transportation buildings	.....	.....	.....	.....	4,942.36	4,942.36*
Heating plant (Reservoir Terminal)	.....	1,456.11	58.52	1,514.63*	465.47	1,980.10*
Storerooms, garages and equipment	.....	2,591.90	811.29*	1,780.61*	714.49	2,495.10*
Portion of above adjustments applicable to merchandise and jobbing activities, excluding depreciation	10,239.61	8,819.39	1,420.22	.....	.....	.....
Depreciation included in above adjustments	14,806.70*	21,162.43*	2,641.33	3,714.40	2,634.76*	6,349.16
Jointly used poles	.....	5,092.50	.....	5,092.50*	5,092.50*	.....
Jointly used manholes	.....	960.00	.....	960.00*	960.00*	.....
Jointly used rights of way	.....	.....	500.00*	500.00	500.00	.....
Reallocation of federal income and capital stock taxes	.....	56,475.33	26,781.20	83,256.53*	67,741.17*	15,515.36*
Net operating revenues as adjusted, before depreciation	$8,318,152.28	$6,998,737.45	$386,619.49	$ 932,795.34	$537,630.20	$395,165.14
Depreciation allocated to departments	2,314,825.62	1,377,987.14	112,434.08	824,404.40	580,707.24	243,697.16
Net operating revenues, as adjusted	$6,003,326.66	$5,620,750.31	$274,185.41	$ 108,390.94	$ 43,077.04*	$151,467.98

* Indicates reduction.

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Engineers' Exhibit No. 202 (Cont.)

[R. p. 7605]

Appendix A.

Recommended Apportionment of Salaries of Joint Employees (Other than Those Whose Salaries Are Charged on a Time Voucher Basis or to Stores or Transportation Clearing Accounts)

	Number of Employees
Basis of operating revenues:	
Richmond:	
System gross operating revenues—all departments (Electric 71%; Gas 5%; Railway 12%; Bus 12%):	
Executives, including assistants and secretaries	11
General accounting	24
Pay roll accounting	13
Tax accounting	3
Statistical department	5
Purchasing	13
Insurance	2
Stenographic	12
Filing	4
Mailing and messengers	8
Telephone operators	3
Addressograph operator	1
Multilith operator	1
System gross operating revenues—electric and gas (Electric 93%; Gas 7%):	
Supervisor of system customers' accounting and assistant	2
System gross operating revenues—railway and bus (Railway 49%; Bus 51%):	
Manager of transportation and assistant	2
Division gross operating revenues—electric, railway and bus (Electric 78%; Railway 12%; Bus 10%):	
Safety engineers	3
Secretary to assistant superintendent of distribution	1
Division gross operating revenues—railway and bus (Railway 56%; Bus 44%):	
Transportation assistant managers, secretary, clerks, etc.	12

Engineers' Exhibit No. 202 (Cont.)

	Number of Employees
District gross operating revenues—railway and bus (Railway 59%; Bus 41%):	
Transportation cashiers	8
Traffic clerks	8
Supervisors	17
Janitors	2
[R. p. 7606] Norfolk:	
Division gross operating revenues—all departments (Electric 63%; Gas 11%; Railway 10%; Bus 16%):	
Executives, including assistants and secretaries	6
Purchasing department	2
Safety engineers	2
Telephone operators	4
Mail clerks and messengers	2
Division gross operating revenues—railway and bus (Raiway 40%; Bus 60%):	
Transportation division managers, superintendents, secretaries and clerks	8
District gross operating revenues—railway and bus (Railway 40%; Bus 60%):	
Transportation district managers	2
Transportation cashiers	7
Traffic clerks	3
Dispatchers	4
Supervisors	15
Special officer	1
Petersburg:	
District gross operating revenues—electric and bus (Electric 94%; Bus 6%):	
District manager and secretary	2
District superintendent	1
District accountant	1
Bookkeepers	2
Telephone operators	4
Portsmouth:	
District gross operating revenues—electric and bus (Electric 70%; Bus 30%):	
District manager and secretary	2
Telephone operator and messenger	2
Office building employees	3

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Engineers' Exhibit No. 202 (Cont.)

	Number of Employees
Special apportionments:	
Richmond:	
Construction accounting department—on basis of May 19 to June 15, 1941 time study (Electric 92%; Gas 3%; Railway 3%; Bus 2%)	14
Sales department—on present apportionment based on study made by sales manager in February, 1941	6
[R. p. 7607] Telephone operators—50% Electric, 50% on basis of system gross operating revenues, all departments	3
Welfare department—on basis of total number of employees allocated to each department (Electric 49%; Gas 7%; Railway 22%; Bus 22%)	4
Office building employees—100% to building operating expense account	31
Norfolk:	
Ratio of customers in Norfolk and Portsmouth Districts weighted for combination services (Electric 72%; Gas 28%):	
Supervisor of customers' accounting and assistant	2
Customers' history and location record clerks	6
Credit manager, assistant, secretary and final notice clerk	4
Ratio of customers in Norfolk District weighted for combination services (Electric 65%; Gas 35%):	
Contact and customers' service clerks	7
Unit bookkeepers (excludes 1 employee on Portsmouth records)	6
General cashiers	4
Bill deliverers (excludes 1 bill deliverer in Portsmouth)	2
Credit department clerks	3
Collectors (excludes 2 collectors in Portsmouth)	7
Ratio of customers in Norfolk Division weighted for combination services (Electric 75%; Gas 25%):	
Billing clerks	7
Verifiers	3
Addressing clerks	2
Ratio of meters in Norfolk Division, excluding Suffolk District (Electric 70%; Gas 30%):	
Meter record clerks	2
Ratio of meters in Norfolk and Portsmouth Districts, excluding Carolina, weighted for combination services (Electric 72%; Gas 28%):	
Meter readers	19

Engineers' Exhibit No. 202 (Cont.)

	Number of Employees
Ratio of meters in Norfolk District, excluding Carolina, weighted for combination services (Electric 65%; Gas 35%):	
Combination servicemen	8
[R. p. 7608] Ratio of merchandise and jobbing accounts in Norfolk District (Electric 62%; Gas 38%):	
Merchandise and jobbing ledger clerks	2
Office building employees—100% to building operating expense account	16
Secretary to manager of gas department—on basis of one-half of time being spent assisting secretary to superintendent of electric distribution (Electric 50%; Gas 50%)	1
Telephone operators—32½% Electric; 17½% Gas; 50% on basis of division gross operating revenues, all departments	2
Sales department—on present apportionment based on study made by sales manager in February, 1941, except following three employees who are to be charged to Electric 50%; Gas 50%:	
Dealer co-ordinator	
Receptionist	
Porter	13
Petersburg:	
General cashiers—on basis of 2 cashiers being necessary for each department (Electric 50%; Bus 50%)	4
Office building employees—100% to building operating expense account	2
Employees formerly apportioned between departments to be charged 100% to electric department:	
Richmond general cashiers	5
Norfolk wholesale ledger clerks	2
Norfolk, secretary to superintendent of electric distribution	1
Portsmouth general cashiers	2
Employees formerly on special apportionments to be allocated on basis of time vouchers:	
Richmond claim department	11
Norfolk claim department	12
Total	441

Engineers' Exhibit No. 221

[Document No. 396—R. pp. 8010-8011]

VIRGINIA ELECTRIC AND POWER COMPANY

Statement of Increased Customers Accounting and Collecting Costs of Gas Department if Operated as Separate Company

CUSTOMERS ACCOUNTING AND COLLECTING EXPENSES

	V. E. & P. Co. July 1941	V. E. & P. Co. 12 Months Based on July 1941	Estimated Cost if Operated as Independent Company	Increase in Cost if Operated as Independent Company
Supervision	$ 300.79	$ 3,600.00	$ 4,500.00	$ 900.00
Customers Contracts and Orders	376.50	4,500.00	4,800.00	300.00
Meter Reading	688.25	8,300.00	12,000.00	3,700.00
Collecting	799.91	9,600.00	16,800.00	7,200.00
Customers Billing and Accounting	811.89	9,700.00	19,800.00	10,100.00
Uncollectible Accounts	173.35	2,400.00	2,400.00	.....
Total	$3,150.69	$38,100.00	$60,300.00	$22,200.00

Engineers' Exhibit No. 221 (Cont.).

VIRGINIA ELECTRIC AND POWER COMPANY

Exhibit 221
Page 2 of 2

			Amount Per Year
SUPERVISION			
1 Customers Accounting Supervisor	@	$200	$ 2,400.00
1 Credit Manager	@	175	2,100.00
Total			$ 4,500.00
CUSTOMERS CONTRACTS AND ORDERS			
1 Customers Contract Clerk	@	$150	$ 1,800.00
2 " " "	@	125	3,000.00
Total			$ 4,800.00
METER READING			
1 Head Meter Reader	@	$150	$ 1,800.00
6 Meter Readers	@	125	9,000.00
Transportation			1,200.00
Total			$12,000.00
COLLECTING			
4 Collectors	@	$125	$ 6,000.00
1 Clerk	@	125	1,500.00
1 Typist	@	100	1,200.00
3 Cashiers	@	125	4,500.00
Transportation			1,200.00
Collection Notices & Postage			2,400.00
Total			$16,800.00
CUSTOMERS BILLING AND ACCOUNTING			
3 Bookkeepers	@	$110	$ 3,960.00
2 Billers	@	100	2,400.00
1 Revenue Clerk	@	135	1,620.00
1 Chief Record Clerk	@	135	1,620.00
3 Records Clerks	@	100	3,600.00
1 Addressograph Clerk	@	100	1,200.00
2 Bill Deliverers	@	100	2,400.00
Customers Bills			500.00
Postage			1,500.00
Miscellaneous			1,000.00
Total			$19,800.00
UNCOLLECTIBLE ACCOUNTS			
Accruals to Reserve (2/10 of 1% of $1,200,000 gross)			$ 2,400.00

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Engineers' Exhibit No. 222.

[Document No. 397—R. pp. 8012-8024.]

VIRGINIA ELECTRIC AND POWER COMPANY

Expenses Charged to Gas Department as Per Taylor Report Which Would Have to be Absorbed by Other Departments in Event of Disposal of the Gas Department

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Based on Taylor Report of August 1, 1941

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Engineers' Exhibit No. 222 (Cont.).

VIRGINIA ELECTRIC AND POWER COMPANY

Summary

Expenses Charged to Gas Department as Per Taylor Report Which Would Have to be Absorbed by Other Departments in Event of Disposal of the Gas Department

	Annually
Executive and Office Pay Roll (Schedule A)	$41,561.00
Pensions (Schedule B)	1,071.00
Joint Use of Facilities (Schedule C)	10,026.00
Miscellaneous (Schedule D)	3,311.00
Total Increase in Other Departments	$55,969.00

Schedule A

VIRGINIA ELECTRIC AND POWER COMPANY

Portion of Compensation of Employees Charged to Gas Department in Taylor Report Which Would Have to Be Absorbed by Other Departments in Event of Disposal of the Gas Department

		Total Annual Salary	Amount Charged to Gas Dept.	Estimated Reduction	Amount to be Absorbed by Other Departments
Executives	Schedule A-1	$134,613	$ 8,067	$	$ 8,067
Junior Executives, Supervisors and General Office Clerks	Schedule A-2	164,947	9,340	5,400	3,940
Customers Accounting	Schedule A-3	122,150	38,001	20,500	17,501
Sales Department	Schedule A-4	29,656	8,806	2,200	6,606
Building Employees	Schedule A-5	32,473	2,897	.....	2,897
Special Apportionment	Schedule A 6	29,016	2,550	.....	2,550
Total		$512,855	$69,661	$28,100	$41,561

Reduction of Employees	Number	Annual Amount
General Office	4	$ 5,400
Customers Accounting	15	20,500
Sales	2	2,200
Total	21	$28,100

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Engineers' Exhibit No. 222 (Cont.).

Schedule A-1

VIRGINIA ELECTRIC AND POWER COMPANY

Executive Salaries Charged to Gas Department for the Year 1940 as Per Taylor Report

Richmond:	
President	$ 1,000.00
Vice-President	650.00
" "	575.00
Treasurer	495.00
Comptroller	465.00
Assistant Comptroller	278.25
Assistant Secretary and Public Relations	300.00
Asst. Comptroller and Welfare	397.32
Purchasing Agent	270.00
" "	250.00
Property Records	170.28
Medical Officer	30.00
General Sales Manager	384.00
Director of Commercial and Industrial Sales	261.00
Norfolk:	
Vice-President	1,056.00
Assistant Comptroller	624.36
Sales Manager	861.25
	$ 8,067.46
Less Estimated Reduction	—0—
Increase to Other Departments	$ 8,067.46
Total 1940 Salaries to Above 17 Executives	$134,613.00

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Engineers' Exhibit No. 222 (Cont.).

Schedule A-2

VIRGINIA ELECTRIC AND POWER COMPANY

Pay Roll of Junior Executives, Supervisors and General Office Clerks Charged to Gas Department as Per Taylor Report

		Total 1940 Salaries	Portion of Salaries Charged to Gas Dept.
Asst. to President		$ 3,240.00	$ 162.00
Secretary to President		2,340.39	117.02
Asst. to Vice-President—Norfolk		2,220.00	244.20
Secretary to Vice-Presidents	(2)	3,914.83	315.74
Secretary to Comptroller		1,684.95	84.25
Secretary to Asst. Comptroller		1,512.00	166.32
Manager—Real Estate Department		2,068.55	62.06
Asst. Mgr.—Real Estate Department		2,505.00	75.15
Manager—Insurance Department		3,165.00	158.25
Supervisor—Welfare Department		3,600.00	252.00
Supervisor—Stenographic Department		2,160.00	108.00
Supervisor—Filing Department		1,600.00	80.00
Tax Accountant		2,730.00	136.50
Tax Clerks	(2)	3,938.00	196.90
Statistician		3,930.00	196.50
Statistical Clerks	(4)	7,877.99	393.90
Buyer—Purchasing Department		2,040.00	102.00
Superintendent of Building	(2)	4,367.74	546.66
General Bookkeeper		2,460.00	123.00
Bookkeeper	(2)	4,915.41	245.77
Supervisor—Vouchers		2,069.57	103.48
Supervisor—Pay Roll		2,310.00	115.50
Asst. Supervisor—Pay Roll		1,715.48	85.77
Supervisor—General Acctg.—Norfolk		2,040.00	224.40
Special Clerk—General Accounting		2,165.44	108.27
Clerks—Purchasing	(11)	13,762.12	760.11
Clerks—General Accounting	(8)	13,359.49	667.97
Clerks—Vouchers, Pay Roll, etc.	(22)	22,329.20	1,116.46
Clerks—Miscellaneous	(4)	4,453.35	222.67
Supervisor—Customers Acctg.—System		3,660.00	219.60
Asst. Supervisor—Customers Acctg.		2,490.00	149.40
Safety Director—Norfolk		2,655.00	292.05
Stenographers	(17)	13,072.23	653.61
Telephone Operators	(10)	11,490.00	637.83
Messengers	(9)	4,208.04	139.00
Clerks (part of year)	(7)	896.78	77.18
	(123)	$164,946.56	$9,339.52
Less Estimated Reduction of 4 Employees			5,400.00
Increase to Other Departments			$3,939.52

Reduction of Employees			Annual Amount
1 Purchasing Clerk	@	$1,200	$1,200
1 General Accounting Clerk	@	1,200	1,200
2 General Accounting Clerks	@	1,500	3,000
Total			$5,400

Engineers' Exhibit No. 222 (Cont.).

Schedule A-3

VIRGINIA ELECTRIC AND POWER COMPANY

Pay Roll of Customers Accounting Department—Norfolk, Charged to Gas Department as Per Taylor Report

		Total 1940 Salaries	Portion of Salaries Charged to Gas Dept.
Supervisor of Customers Accounting and Assistant	(2)	$ 5,460	$ 1,528.80
Customers History and Location Record Clerks	(6)	6,306	1,765.68
Meter Record Clerks	(2)	2,448	734.40
Credit Manager, Assistant, Secretary and Final Notice Clerk	(4)	8,541	2,391.48
Contact and Customers Service Clerks	(7)	10,629	3,720.15
Unit Bookkeepers	(6)	6,602	2,310.70
Cashiers	(4)	7,188	2,515.80
Bill Deliverers	(2)	2,724	953.40
Credit Department Clerks	(3)	3,538	1,238.30
Collectors	(7)	11,176	3,911.60
Billing Clerks and Verifiers	(10)	11,718	2,929.50
Addressing Clerks	(2)	2,172	543.00
Meter Readers	(19)	27,088	7,584.64
Combination Service Men (includes 2 training for 6 months)	(8)	13,968	4,888.80
Merchandise Accounts Receivable Clerks	(2)	2,592	984.96
Total	(84)	$122,150	$38,001.21
Less Estimated Reduction of 15 Employees			20,500.00
Increase to Other Departments			$17,501.21

Reduction of Employees			Annual Amount
4 Meter Readers	@	$1,500	$ 6,000
2 Collectors	@	1,500	3,000
3 Billers and Verifiers	@	1,200	3,600
1 Unit Bookkeeper	@	1,200	1,200
1 Credit Clerk	@	1,200	1,200
1 Record Clerk	@	1,100	1,100
1 Contract Clerk	@	1,400	1,400
1 Combination Service Man	@	2,000	2,000
1 Miscellaneous Clerk	@	1,000	1,000
15 Total			$20,500

Engineers' Exhibit No. 222 (Cont.).

Schedule A-4

VIRGINIA ELECTRIC AND POWER COMPANY

Pay Roll of Sales Department Employees Charged to Gas Department as Per Taylor Report

		Total 1940 Salaries	Portion of Salaries Charged to Gas Dept.
Assistant to Sales Manager		$ 2,153.96	$ 107.70
Merchandise Sales Director		3,900.00	195.00
System Sales Clerk		1,278.00	63.90
Home Service Director	(2)	4,165.00	1,018.25
Commercial and Industrial Sales Supervisor		4,200.00	966.00
Dealer Coordinator		2,580.00	1,290.00
Stenographer		1,871.76	411.79
Home Economist	(2)	1,643.03	821.51
Floor Sales Supervisor		2,591.95	1,295.97
Floor Sales Clerks	(2)	3,124.22	1,562.11
Receptionist and Clerk		1,236.00	618.00
Porter		912.00	456.00
Total	(15)	$29,655.92	$8,806.23
Less Estimated Reduction of 2 Employees			2,200.00
Increase to Other Departments			$6,606.23

Reduction of Employees			Annual Amount
1 Floor Sales Clerk	@	$1,000	$1,000
1 Service Director or Home Economist	@	1,200	1,200
Total			$2,200

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Engineers' Exhibit No. 222 (Cont.).

Schedule A-5

VIRGINIA ELECTRIC AND POWER COMPANY

Pay Roll of Janitors, Maids and Building Employees Charged to Gas Department as Per Taylor Report

		Total 1940 Salaries	Portion of Salaries Charged to Gas Dept.
Maids	(20)	$ 6,396.66	$ 769.25
Janitors	(18)	13,110.27	970.54
Elevator Operators	(8)	6,876.00	522.96
Watchmen	(5)	6,090.00	633.96
Total	(51)	$32,472.93	$2,896.71
Estimated Reduction			—0—
Increase in Other Departments			$2,896.71

Schedule A-6

VIRGINIA ELECTRIC AND POWER COMPANY

Pay Roll of Employees a Portion of Whose Salaries is Allocated to Gas Department on Basis of Special Apportionments as Per Taylor Report

		Total 1940 Salaries	Portion of Salaries Charged to Gas Dept.
Construction Accounting Clerks	(10)	$16,572.40	$ 497.17
Purchasing Agent—Norfolk	(1)	1,920.00	211.20
Stenographer—Norfolk	(1)	1,140.92	570.46
Surgeon—Norfolk	(1)	2,100.00	210.00
Investigator—Norfolk	(1)	2,940.00	176.40
Telephone Operators	(4)	3,578.10	800.30
Messenger	(1)	764.40	84.08
Total	(19)	$29,015.82	$2,549.61
Less Estimated Reduction			—0—
Increase to Other Departments			$2,549.61

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Engineers' Exhibit No. 222 (Cont.).

Schedule B

VIRGINIA ELECTRIC AND POWER COMPANY

Gas Department Pensions

Pensions charged to Gas Department for year 1940 as per Taylor Report which would have to be absorbed by other Departments in event of disposal of the Gas Department	$1,071.00

Schedule C

VIRGINIA ELECTRIC AND POWER COMPANY

Costs of Joint Use of Facilities Charged to Gas Department for Year 1940 as Per Taylor Report Which Would Have to be Absorbed by Other Departments in the Event of Disposal of the Gas Department

General Office Buildings, Furniture and Equipment	$ 9,215.00
Storerooms, Garages and Equipment	811.00
Total	$10,026.00

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Engineers' Exhibit No. 222 (Cont.).

Schedule D

VIRGINIA ELECTRIC AND POWER COMPANY

Miscellaneous Expenses Allocated to Gas Department in Taylor Report Which Would Have to be Absorbed by Other Departments in Event of Disposal of the Gas Department

	Total 1940 Expense	Portion Allocated to Gas Dept.
Donations	$24,869.95	$1,243.50
Transfer Fees:		
Stone & Webster Service Corp.	4,815.11	144.45
Chase National Bank	2,046.33	61.39
Vepcovian (Magazine)	2,911.00	203.77
Telephone	44,900.79	1,825.81
Dues and Subscriptions (Schedule D-1)	6,365.00	657.45
Total	$85,908.18	$4,136.37
Less Estimated Reduction in Telephone to a Continuing Expense of $1,000		825.81
		$3,310.56

Schedule D-1

VIRGINIA ELECTRIC AND POWER COMPANY

Large Items of Dues and Subscriptions

	Total	Portion Charged to Gas Dept.
Chamber of Commerce of the United States	$ 300.00	$ 15.00
Virginia State Chamber of Commerce	2,000.00	100.00
Hampton Roads Maritime Commission	300.00	33.00
Norfolk Advertising Board	600.00	96.00
Norfolk Association of Commerce	400.00	64.00
Norfolk Industrial Commission	1,800.00	288.00
Norfolk Real Estate Board	120.00	19.20
Public Utilities Association of the Virginias	845.00	42.25
Total	$ 6,365.00	$ 657.45

Engineers' Exhibit No. 223.

[Document No. 398, R. pp. 8025-8033]

VIRGINIA ELECTRIC AND POWER COMPANY

Statement of Increased Cost of Customers Accounting, Sales and Administrative and General Office Expenses of the Gas Department if Operated as an Independent Company

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Engineers' Exhibit No. 223 (Cont.).

Exhibit 223

VIRGINIA ELECTRIC AND POWER COMPANY

Statement of Increased Cost of Customers Accounting, Sales and Administrative and General Expenses of Gas Department if Operated as Independent Company

Summary	V.E.&P.Co. July 1941	V.E.&P.Co. 12 Months Based on July 1941	Estimated Cost if Operated as Independent Company	Increase in Cost if Operated as Independent Company
CUSTOMERS ACCOUNTING AND COLLECTING EXPENSES				
Increase as shown on Engineers Exhibit 221	$ 3,150.69	$ 38,100.00	$ 60,300.00	$22,200.00
SALES PROMOTION EXPENSES				
Schedule A	1,276.56	17,200.00	25,000.00	7,800.00
ADMINISTRATIVE AND GENERAL EXPENSES				
Schedule B	5,991.59	62,810.00	107,940.00	45,130.00(A)
Total	$10,418.84	$118,110.00	$193,240.00	$75,130.00(A)

(A) There would be credited against this amount the gas department's proportion of the expenses of executives and experts of the Virginia Electric and Power Company who would be required after the termination of the contract with the mutual service organization. Mr. D. C. Barnes is to testify regarding the executives and experts to be required, the expense of employing them, and the proportion of such expense which would be borne by the gas department if it continued to operate jointly with the electric department.

Schedule A

VIRGINIA ELECTRIC AND POWER COMPANY

Sales Promotion Expenses

	V.E.&P.Co. July 1941	V.E.&P.Co. 12 Months Based on July 1941	Estimated Cost if Operated as Independent Company	Increase in Cost if Operated as Independent Company
Supervision (Schedule A-1)	$ 122.62	$ 1,500.00	$ 6,000.00(a)	$ 4,500.00(a)
Salaries & Commissions (Schedule A-2)	929.84	11,000.00	11,800.00	800.00
Demonstrations (Schedule A-3)	199.24	2,400.00	2,400.00	—
Advertising	13.72	1,100.00(b)	3,600.00	2,500.00
Miscellaneous Sales Expenses	11.14	1,200.00(b)	1,200.00	—
Total	$1,276.56	$17,200.00	$25,000.00	$ 7,800.00

(a) Exclusive of portions of salaries chargeable to merchandise and jobbing.

(b) Adjusted to reflect normal year's operation.

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Engineers' Exhibit No. 223 (Cont.).

Schedule A-1

VIRGINIA ELECTRIC AND POWER COMPANY

	Estimated Cost if Operated as Independent Company
SUPERVISION	
1 Sales Manager @ $5,000	$5,000.00
1 Office Assistant @ $1,500	1,500.00
1 Clerk @ $1,000	1,000.00
Total	$7,500.00
Less amount charged to Merchandise and Jobbing (20%)	1,500.00
Balance charged to Supervision	$6,000.00

Schedule A-2

VIRGINIA ELECTRIC AND POWER COMPANY

	Estimated Cost if Operated as Independent Company
SALARIES AND COMMISSIONS	
1 Industrial Sales Engineer @ $4,000.00	$ 4,000.00
2 Commercial and Residential Sales Engineer @ $3,000.00	6,000.00
1 Office Assistant and Engineer @ $1,800.00	1,800.00
Total	$11,800.00

Schedule A-3

VIRGINIA ELECTRIC AND POWER COMPANY

	Estimated Cost if Operated as Independent Company
DEMONSTRATION	
1 Home Economist @ $1,500	$1,500.00
1 Assistant @ $1,000	1,000.00
Miscellaneous Expenses	500.00
Total	$3,000.00
Less amount charged to Merchandising and Jobbing (20%)	600.00
Balance charged to Demonstration Expenses	$2,400.00

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Engineers' Exhibit No. 223 (Cont.).

Schedule B

VIRGINIA ELECTRIC AND POWER COMPANY

Administrative and General Expenses

	V.E.&P.Co. July 1941	V.E.&P.Co. 12 Months Based on July 1941	Estimated Cost if Operated as Independent Co.	Increase in Cost if Operated as Independent Company
OPERATION				
Salaries of General Officers and Executives (Schedule B-L)	$ 955.45	$11,500.00	$ 23,000.00	$11,500.00
Other General Office Salaries (Schedule B-2)	1,347.08	16,200.00	26,600.00	10,400.00
Expenses of General Officers	35.89	420.00	1,800.00	1,380.00
Expenses of General Office Employees	4.36	50.00	200.00	150.00
General Office Supplies & Exp.	389.21	4,700.00	4,700.00	—
Management and Supervision Fees and Expenses	192.46	—	24,000.00	24,000.00a
Special Services	496.38	1,200.00b	1,500.00	300.00
Legal Services	203.12	2,400.00c	4,000.00c	1,600.00
Insurance	109.25	1,300.00	1,300.00	—
Injuries and Damages	500.00	6,000.00	6,000.00	—
Employees Welfare Expense	330.18	7,200.00b	7,200.00	—
Pensions	115.00	1,400.00	—	1,400.00*
Miscellaneous General Expenses:				
Transportation Furnished to Employees	1,474.20	11,440.00b	8,840.00d	2,600.00*
Miscellaneous Expenses	226.85	3,600.00b	3,600.00	—
Rents	16.22	200.00	—	200.00*
Total Operation	$6,395.65	$67,610.00	$112,740.00	$45,130.00
Administrative and General Expenses transferred—credit	602.15	7,200.00	7,200.00	—
Net Operation	$5,793.50	$60,410.00	$105,540.00	$45,130.00
MAINTENANCE				
Structures and Improvements	$ 157.61	$ 1,900.00	$ 1,900.00	—
Office Furniture & Equipment	39.91	500.00	500.00	—
Miscellaneous Property	.57			
Total Maintenance	$ 198.09	$ 2,400.00	$ 2,400.00	—
Total Administrative and General Expenses	$5,991.59	$62,810.00	$107,940.00	$45,130.00

a There would be credited against this amount the gas department's portion of the expenses of executives and experts of the Virginia Electric and Power Company who would be required after the termination of the contract with the mutual service organization. Mr. D. C. Barnes is to testify regarding the executives and experts to be required, the expense of employing them and the proportion of such expense which would be borne by the gas department if it continued to operate jointly with the other departments of the Company.

b Adjusted to reflect normal year's expenses.

c Excludes 20% of legal services charged to injuries and damages reserve.

d Represents value of free transportation furnished to 115 full time gas employees and 21 general employees who would be taken over by the independent company and who would expect additional compensation in lieu of free transportation lost. The amount so paid would be charged to the various payroll accounts according to the employees' duties and not to miscellaneous general expenses.

* Indicates red figures.

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Engineers' Exhibit No. 223 (Cont.).

Schedule B-1

VIRGINIA ELECTRIC AND POWER COMPANY

		Estimated Cost if Operated as Independent Company
Salaries of General Officers and Executives		
President	@ $10,000.00	$10,000.00
Secretary-Treasurer	@ 6,000.00	6,000.00
Purchasing Agent	@ 4,000.00	4,000.00
Personnel & Welfare Officer	@ 3,000.00	3,000.00
Total		$23,000.00

Schedule B-2

VIRGINIA ELECTRIC AND POWER COMPANY

		Estimated Cost if Operated on Independent Company
Other General Office Salaries		
Assistant to General Officers	@ $ 2,500	$ 2,500.00
Secretary to General Officers	@ 1,800	1,800.00
Chief Clerk—Accounting Dept.	@ 3,600	3,600.00
Plant Accountant	@ 2,700	2,700.00
Chief Payroll Clerk	@ 2,400	2,400.00
Assistant Payroll Clerk	@ 1,200	1,200.00
Cash Receipts and Disbursements Clerks (3)	2 @ 1,200 1 @ 1,000	3,400.00
Subsidiary Records Clerks	1 @ 1,100 3 @ 1,200	4,700.00
Stenographers (2)	@ 1,200	2,400.00
Typist	@ 1,000	1,000.00
Messenger	@ 900	900.00
Total (17 employees)		$26,600.00

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Engineers' Exhibit No. 224.

[Document No. 399—R. p. 8034]

VIRGINIA ELECTRIC AND POWER COMPANY

Increase in Expense if Gas Department is Operated as an Independent Company

Expenses charged to Gas Department which would have to be absorbed by other departments in event of disposal of the Gas Department as shown in Exhibit 222	$ 55,969
Increase in expenses of the Gas Department if the Gas Department is operated as an independent company as shown in Exhibit 223	75,130(A)
Total increase in expenses which would result if Gas Department is operated as an independent company due to loss of efficiencies resulting from joint operation	$131,099(A)

(A) There would be credited against this amount the Gas Department's proportion of the expenses of executives and experts of Virginia Electric and Power Company who would be required after the termination of the contract with the mutual service organization. Mr. D. C. Barnes is to testify regarding the executives and experts to be required, the expense of employing them and the proportion of such expense which would be borne by the Gas Department if it continued to operate jointly with the Electric Department.

Engineers' Exhibit No. 227.

[Document No. 402—R. pp. 8040-8059.]

Certain Increased Costs Which Would Result if the Gas Properties and Gas Business (Including Sale of Gas Merchandise) of Gulf States Utilities Company Were Owned and Operated by an Independent Company

Schedule		Monthly Increase in Costs to Gas Company	Monthly Increase in Costs to Gulf States Utilities Co.
A	Executive salaries and supervisory services	$ 609	$1,132
B	Pay roll (excluding executive)	1,200	1,940
C	Rents	394	198
D	Charges on owned buildings and equipment	525	405
E	Maintenance expense on structures and equipment	12	113
F	Taxes	122	98
G	Transportation	29	175
H	Advertising	98	72
I	Donations	72	11
J	Legal expenses	79	88
K	Postage	159	195
L	Other office supplies and expenses	41	-0-
M	Electric service	108	108*
N	Gas Service	35*	35
O	Telephone Service	89	17
		$3,502	$4,371

Annual Increased Cost (times 12)	
Increased Cost to Gas Company	$42,024
Increased Cost to Gulf States Utilities Company	52,452
Total	$94,476

* Indicates red figures.

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Engineers' Exhibit No. 227 (Cont.).

Schedule A

Executive Salaries and Supervisory Services

			Monthly
INCREASED COST TO GAS COMPANY			
If the gas department is operated as an independent company, the cheapest way to secure various expert services needed would be to contract with some service organization such as Stone & Webster Service Corporation. Based on the charges outlined in the Stone & Webster Service Corporation contract form this cost would be	$12,580.67 annually ÷ 12		$1,048.39
Officers needed by new gas company:			
President @ yearly salary of	$ 8,000.00		
Sec. & Treas. @ yearly salary of	5,000.00		
	$13,000.00 annually ÷ 12		1,083.33
Total cost to independent gas company			$2,131.72
Similar service contract for Gulf States Utilities Company as presently operated would cost $145,292.73, of which the portion assignable to the gas department would be 6% or	$ 8,717.56 ÷ 12	$726.46	
Portion of salaries of local executives of Gulf States Utilities Company assigned to gas department—per month		796.26	$1,522.72
Increased cost to independent gas company			$ 609.00
INCREASED COST TO GULF STATES UTILITIES COMPANY			
Cost of service contract to Gulf States Utilities Company if gas operations were eliminated	$140,599.18		
Amount assignable to departments of the Company other than gas under joint operation—$145,292.73 less $8,717.56	136,575.17		
	$ 4,024.01 ÷ 12	$335.33	
Portion of salaries of local executives assigned to gas under joint operation which would continue as an expense to the Gulf States Utilities Company—per month		796.26	
Increased cost to Gulf States Utilities Company			$1,131.59

Engineers' Exhibit No. 227 (Cont.).

Schedule B

Page 1

Pay Roll

(Excluding Executive)

	Monthly
INCREASED COST TO GAS COMPANY	
Personnel necessary to perform operations now carried on by joint employees of Gulf States Utilities Company; General Accounting, Stores, Purchasing, Garage, Customers' Accounting and Collecting and Sales (See Page 2)	$5,460.00
Less amount presently assigned to Gas Department for pay roll of joint employees (see Page 4)	4,260.23
Net Increase to Gas Company	$1,199.77

INCREASED COST TO GULF STATES UTILITIES COMPANY	
Amount now assigned to Gas Department for pay roll of joint employees (see Page 4)	$4,260.23
Less possible reduction in personnel if Gas Department is eliminated from Company's operations (see Page 5)	2,320.00
Net Increase to Gulf States Utilities Company	$1,940.23

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Engineers' Exhibit No. 227 (Cont.).

Schedule B
Page 2

Personnel (Excluding Executive) Needed by Gas Company to Perform Operations Now Carried on by Joint Employees of Gulf States Utilities Company

Position	Number of Employees	Total Monthly Salary
CUSTOMERS ACCTG. AND COLLECTING:		
Supervisor Customers Acctg. and Credits	1	$ 200.00
Billing Clerk	1	90.00
Billing Clerk and Compt. Oper.	1	110.00
Bookkeepers	2	200.00
Cashiers	2	200.00
Stenographers	1	90.00
Clerks	5	540.00
Meter Readers	3	375.00
Collector	1	135.00
	17	$1,940.00
NEW BUSINESS AND SALES:		
Sales Manager	1	$ 275.00
Comm'l and Industrial Salesman	1	200.00
Floor Salesman	1	100.00
Sales Clerk and Stenographer	2	200.00
Outside Salemen	5	475.00
Deliveryman and Porter	1	65.00
Demonstrator	1	125.00
	12	$1,440.00
ACCTG. AND GENERAL:		
Chief Clerk	1	$ 225.00
General Clerk	1	175.00
Utility Clerks	4	500.00
Stenographers	1	120.00
Telephone Operator	1	85.00
Combination Telephone Opr. and Clerk	1	85.00
Purchasing Agent	1	200.00
Storekeeper	1	150.00
Asst. Storekeeper	1	75.00
Stenographer and Clerk	1	75.00
Auto Mechanic	2	300.00
Car Washer and Janitor	1	90.00
	16	$2,080.00
Total	45	$5,460.00

Engineers' Exhibit No. 227 (Cont.).

Schedule B
Page 3

Summary of Joint Employees of Gulf States Utilities Company Who Engage in Gas Department Operations

Position	Number of Employees	G.S.U. Co. Monthly Salary Total	Amt. Chgd. to Gas Util. & Gas N&J
BATON ROUGE			
Customers Acctg. & Collecting			
Supervisor Credits & Collections	1	$ 175.00	$ 55.00
Chief Bill Clerk	1	165.00	37.00
Asst. Supervisor Credits & Collections	1	165.00	52.00
Cashiers	3	302.50	100.50
Collector	1	137.50	46.50
Meter Desk Clerks	2	180.00	58.00
Utility Clerks	8	907.50	256.50
Contact Clerks	4	425.00	142.00
Billing Operators & Verifiers	9	745.00	176.50
Stenographers	2	185.00	61.00
Stencil & Addressing Clerks	4	290.00	64.00
Cash Posting & Line Order Clerks	5	405.00	134.00
Meter Readers	4	470.00	178.50
	45	$ 4,552.50	$1,361.50
New Business & Sales			
Sales Manager	1	$ 437.50	$ 108.00
Mdse. Sales Supervisor	1	350.00	87.00
Sales Floor Clerks	4	530.00	170.10
Home Economist	1	127.50	31.50
Outside Salesmen	7	665.00	231.00
Industrial & Comm'l. Salesmen	5	1,007.50	297.00
New Business Agent & Ass't.	2	372.50	148.50
Stenographers & Sales Clerks	3	290.00	72.00
Complaint Adjuster	1	147.50	50.00
Deliveryman & Porter	1	65.00	16.00
Serviceman	1	107.50	41.80
	27	$ 4,100.00	$1,252.90

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Engineers' Exhibit No. 227 (Cont.).

Schedule B
Page 4

Position	Number of Employees	G.S.U. Co. Monthly Salary Total	Amt. Chgd. to Gas Util. & Gas N&J
Accounting & General			
Chief Clerk	1	$ 210.00	$ 34.00
Asst. Chief Clerk	1	185.00	30.00
Tax Accountants	2	480.00	77.00
General Clerks	6	1,120.00	174.22
Classification Clerks	4	667.50	108.00
Construction Clerks	2	260.00	42.00
Pay Roll Clerks	4	472.50	75.50
Utility Clerks	15	1,520.00	266.00
Stenographers	9	900.00	139.22
PBX Operators	3	227.50	37.50
Janitors	4	315.00	51.00
Purchasing Agent	1	270.00	65.15
Steno. & File Clerk	2	230.00	35.06
Storekeeper	1	180.00	1.01
Asst. Storekeepers	2	290.00	1.62
Stock Record Clerks	3	275.00	1.54
Janitors & Helpers	3	240.00	2.12
Garage Foreman	1	230.00	36.93
Auto Mechanics	2	422.94	67.91
Garage Night Man	2	327.55	52.59
Laborers	2	159.94	25.68
Claim Agent & Ass't	2	284.00	43.00
	70	$ 9,266.93	$1,367.05

Engineers' Exhibit No. 227 (Cont.).

Position	Number of Employees	G.S.U. Co. Monthly Salary Total	Amt. Chgd. to Gas Util. & Gas N&J
BEAUMONT GENERAL OFFICE			
Customers Asstg. & Collecting.....			None
New Business & Sales			
Clerk	1	$ 152.50	$ 4.87
Stenographers	2	195.00	14.25
Accounting & General			
Chief Clerk	1	300.00	7.20
Asst. Chief Clerk	1	275.00	6.70
General Clerks	4	925.00	19.96
Clerks	16	2,164.00	37.34
Comptometer Operators	2	185.00	2.96
Stenographers	10	867.50	15.71
PBX Operators	2	175.00	1.40
Secretary to President	1	190.00	13.38
Asst. to General Engr.....	1	155.00	10.91
Asst. Purchasing Agent	1	205.00	9.22
Clerks	3	342.50	14.38
Stenographers	3	275.00	8.72
Tax Accountant & Asst.....	2	475.00	24.28
Clerks	6	1,265.00	75.29
Stenographers	2	255.00	12.21
	58	$ 8,411.50	$ 278.78
Totals.....	200	$26,330.93	$4,260.23

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Engineers' Exhibit No. 227 (Cont.).

Schedule B
Page 5

If the gas department were eliminated no reduction could be made in the number of employees in the Beaumont office. An analysis of joint employees in Baton Rouge indicates a possible reduction of 18 employees as follows:

2 General Clerks	@	$190	$ 380.00
2 Stenographers	@	100	200.00
1 Asst. Storekeeper	@	145	145.00
1 Storeroom Helper	@	75	75.00
1 Garage Man	@	160	160.00
6 Clerks	@	120	720.00
1 Meter Reader	@	120	120.00
2 Billing Operators & Verifiers	@	85	170.00
1 Industrial Salesman	@	200	200.00
1 Asst. New Bus. Agt.	@	150	150.00
Total Monthly Salaries			$2,320.00

Schedule C

Rents

	Monthly
INCREASED COST TO GAS COMPANY:	
Rent of office space for Gas Company, 5,300 square feet with air-conditioning, lighting, and heating included in rent	$550.00
Cost of equipping office with necessary partitions etc. to be amortized over ten years lease $5,000 ÷ 120 months	41.67
Total cost of new quarters	$591.67
Amount presently assigned to Gas Department for this item	197.85
Increase in cost to Gas Company	$393.82

INCREASED COST TO GULF STATES UTILITIES COMPANY:

The amount of $197.85 presently assigned to the Gas Department would continue as an increased cost to the electric and other departments of the Company as the Company could not move its offices to smaller quarters if the Gas Department were separated $197.85

Engineers' Exhibit No. 227 (Cont.).

Schedule D

Charges on Owned Buildings and Equipment

		Monthly
INCREASED COST TO GAS COMPANY:		
Investment in land, building and equipment $95,000 @ 7%	$ 6,650.00	
Ad Valorem Taxes on 80% basis State and Parish 76,000 @ $14.10 per M	1,071.60	
City 76,000 @ $13.00 per M	988.00	
Depreciation		
Equipment $15,000 @ 6.67%	1,000.50	
Building 72,500 @ 2%	1,450.00	
Total	$11,160.10 ÷ 12	$930.01
Less amount presently assigned to gas department for charges on owned buildings and equipment		405.49
Increased Cost to Gas Company		$524.52

INCREASED COST TO GULF STATES UTILITIES COMPANY:

The amount now assigned to the gas department for this item would continue as an increased expense to the electric and other departments of the Company	$405.49

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Engineers' Exhibit No. 227 (Cont.).

Schedule E

Maintenance Expense on General Structures and Equipment

	Monthly
INCREASED COST TO GAS COMPANY:	
Estimated cost based on 1½% of investment in new building and land—1½% of 80,000 ÷ 12	$100.00
Estimated cost based on 2% of investment in new equipment—2% of $15,000 ÷ 12	25.00
Total	$125.00
Amount assigned to gas department for this item (12 months average)	113.27
Increased Cost to Gas Company	$ 11.73

INCREASED COST TO GULF STATES UTILITIES COMPANY:

The amount of $113.27 presently assigned to the gas department would continue as an expense to the Gulf States Utilities Company if the gas department were eliminated.

In 1940, maintenance expense of the gas department amounted to 1.43% of fixed investment of the gas department, and we estimate that this item for the independent gas company will average out at a cost of 1.5% of the investment in buildings and land. Land has been included because of maintenance of driveways, spur tracks, fences, etc.

Engineers' Exhibit No. 227 (Cont.).

Schedule F

Taxes

		Increase in Cost—Monthly Gas Company	G. S. U. Company
SUPERVISION AND INSPECTION FEE:			
Cost to Gas Company based on 1940 revenues of $638,711:			
$350,000 @ $2.00 per M.....	$ 700.00		
288,711 @ 1.50 per M.....	423.07		
	$1,133.07 annually		
Portion of such tax presently assigned to gas department.....	240.00 annually		
Increase to Gas Company.....	$ 893.07 ÷ 12	$ 74.42	
The portion of this tax now assigned to the gas department will continue as an additional expense to the electric and other departments of the Company, as the Company now pays the maximum tax and would continue to pay the maximum if gas operations were eliminated.....	240.00 ÷ 12		$ 20.00
SOCIAL SECURITY TAXES:			
Estimated at 4% of increased pay roll in Schedule B:			
Federal Old Age and Survival Insurance Benefits	1.0%		
State Unemployment Insurance	2.7%		
Federal Unemployment Insurance	.3%		
Total.....	4.0%	47.99	77.61
		$122.41	$ 97.61

Engineers' Exhibit No. 227 (Cont.).

Schedule G

Transportation Expense

(Excluding Pay Roll)

	Monthly
Increased Cost to Gas Company	
Cost of additional automobiles needed by Gas Company to carry on operations which are now performed with the use of joint automotive equipment of Gulf States Utilities Company: 6 cars @ $50 per month. The operating cost of an automobile, exclusive of pay roll, has been considered as amounting to $50 monthly including depreciation. These additional cars will be required by executives, salesmen, delivery men, and for general use, including collections.	$300.00
Less amount presently assigned to gas department for joint automotive facilities used by gas department for these operations.	271.00
Increase to Gas Company	$ 29.00
Increase Cost to Gulf States Utilities Company	
If the gas department were eliminated from the Company's operations no reduction could be made in the number of cars now used by the Company's joint personnel. There would, however, be some reduction in the expense of operating this equipment because of fewer miles traveled. It is estimated that of the $271 now assigned to the gas department for use of such equipment, at least $175 would continue as an additional expense to the electric and other departments of the Company if the gas department were operated as an independent company	.....
Increase to Gulf States Utilities Company	$175.00

Engineers' Exhibit No. 227 (Cont.).

Schedule H

Advertising

	Monthly
Increased Cost to Gas Company	
It is estimated that an independent Gas Company about the size of the Company's gas department would have to spend a minimum of $300 monthly for advertising, including merchandise advertising. This amount would buy roughly 1½ pages of newspaper space with no allowance for expenses incidental to setting up the ads	$300.00
Amount assigned to Gas Department of Gulf States Utilities Company (12 months average)	201.61
Increased cost to Gas Company	$ 98.39
Increased Cost to Gulf States Utilities Company	
If the Gas Department were separated from the Company no reduction could be made in the amount of general advertising now included in the Company's program. The amount of such advertising now assigned to the gas department which would continue as an expense to the electric and other departments of the Company is—	$ 72.16

(12 months average)

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Engineers' Exhibit No. 227 (Cont.).

Schedule I

Donations

		Monthly
Estimated donations required of an independent Gas Company of the size in question	$1,500.00 annually	
Less portion of this expense presently assigned to gas department for donations in Baton Rouge Territory (approximately)	630.00 annually	
Increased cost to Gas Company	$ 870.00 ÷ 12	$72.50
Increased Cost to Gulf States Utilities Company		
Amount presently assigned to gas department	$ 630.00 annually	
Estimated reduction in donations which might be effected if gas business were eliminated from Company's operation	500.00 annually	
Increased cost to Gulf States Utilities Company	130.00 ÷ 12	$10.83

Schedule J

Legal Expenses

	Monthly
Estimated cost of retainer fee for independent Gas Company @ $2,000 annually	$166.67
Amount now assigned to gas department	88.00
Increase in cost to Gas Company under independent operation	$ 78.67
Increased Cost to Gulf States Utilities Company	
At present the retainer fee for legal services in Baton Rouge for Gulf States Utilities Company is $6,600 annually and no reduction could be made in this cost if the gas department were eliminated. The increase in cost, therefore, to the electric and other departments of the Company would equal the portion of this fee now assigned to the gas department.	
Increase to Gulf States Utilities Company	$ 88.00

Engineers' Exhibit No. 227 (Cont.).

Schedule K

Postage

Estimated Cost of Postage to Gas Company

			Monthly
11,000 bills	@ 2¢	$220.00	
1,500 bills	@ 3¢	45.00	
2,200 reminder notices	@ 2¢	44.00	
300 reminder notices	@ 3¢	9.00	
Miscellaneous Postage		40.00	
Total			$358.00
Amount now assigned to gas department (Average for 12 months)			198.62
Increased cost to the Gas Company			$159.38

Increased Cost to Gulf States Utilities Company

Of the amount now assigned to the gas department only a small portion of the miscellaneous postage costs might be saved (see below). The amount of $198.62 less 10% of the miscellaneous postage charges or $194.62 would therefore continue as an additional expense to the electric and other departments of the Company.

Increased cost to Gulf States Utilities Company..... $194.62

Estimate for Gas Company based on 12,500 customers, 11,000 of whom are within the Baton Rouge metropolitan postal zone. Bills can be mailed to these customers for 2¢ each, the remainder of the bills will require 3¢ postage each. The estimate for miscellaneous postage costs for the Gas Company is based on the average amount now assigned to the gas department for postage used for this purpose. If the gas department were separated from the Company none of the postage costs for mailing bills could be saved and a reduction in the amount of miscellaneous postage required is doubtful as orders, reports and other items of mailing matter pertaining entirely to gas operations are rare. However, the above detail includes 10% of the miscellaneous postage now assigned to gas as a saving to the Company if the gas department were eliminated; the remainder of this item would continue as an additional expense to the electric and other departments of the Company.

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Engineers' Exhibit No. 227 (Cont.).

Schedule L

Other Office Supplies and Expenses

Increased Cost to Gas Company

			Monthly
12,500 bills	@ $1.50 per M	$18.75	
2,500 notices	@ 1.50 per M	3.75	
15,000 envelopes	@ 1.25 per M	18.75	$41.25

The item detailed above represents a direct duplication of expense resulting from operation of the gas department as an independent company. In this analysis no consideration was given to a number of other items such as janitor supplies, lodgers, expenses of employees, and miscellaneous office supplies. An analysis of such items would undoubtedly indicate an increase in cost to the Gas Company and would also indicate a continuing expense to the Gulf States Utilities Company if the gas department were operated independently.

Schedule M

Electric Service

		Monthly
Increased Cost to Gas Company		
Electric service to office (included in rent)	$—0—	
Electric service to new building (See below) 20 kw and 9500 kwh billed @ Gulf States Utilities Company's Rate 401	183.00	$183.00
Less amount presently assigned to gas department for use of electricity in joint buildings		75.48
Increased Cost to Gas Company		$107.52

Use of electricity for the Gas Company's new building was based on an engineer's estimate of the requirements of this type and size. The demand is estimated at 20 kw at about 65% load factor or 9,500 kwh.

Effect on Gulf States Utilities Company

If the gas department were operated as an independent Company, the Gulf States Utilities Company would sell electricity to the Gas Company in the amount of $183.00

The use of electricity and the demand created in joint buildings of the Company would not be reduced because of elimination of the gas department. The amount presently assigned to gas for this item would therefore continue as an expense to the electric and other departments of the Company 75.48

Increased Cost to Gulf States Utilities Company..... $107.58*

* Indicates red figure.

Engineers' Exhibit No. 227 (Cont.).

Schedule N

Gas Service

	Monthly
Effect on Gas Company	
Average monthly cost of gas furnished to Gulf States Utilities Company office building, old power plant, and service building at regular rates charged commercial customers based on 12 months use	$ 81.75
Less average amount presently assigned to departments other than the gas department for gas used in joint buildings based on the average monthly use times 26.8¢	46.71
Increased cost to Gas Company	$ 35.04*
Increased Cost to Gulf States Utilities Company	
The amount of $35.04 would represent an increased cost to the electric and other departments of the Company	$ 35.04

Schedule O

Telephone Service

	Monthly
Increased Cost to Gas Company	
Cost to Independent Gas Company of suitable private branch exchange to consist of switchboard, 5 trunk circuits, 10 inside stations, and 15 outside stations with necessary equipment—Monthly Base Rental	$141.55
Less amount presently assigned to Gas Department for this service	52.08
Increased cost to Gas Company	$ 89.47

Increased Cost to Gulf States Utilities Company	
Amount presently assigned to Gas Department	$ 52.08
Less reduction in expense resulting from discontinuance of 2 trunks and 18 stations after elimination of Gas Department	35.56
Increased cost to Gulf States Utilities Company	$ 16.52

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Engineer's Exhibit 228.

[Document No. 403—R. pp. 8060-8072]

VIRGINIA ELECTRIC AND POWER COMPANY

Summary

Expenses Charged to Transportation Department Which Would Have to be Absorbed by Other Departments in Event of Disposal of the Transportation Department

Based on Taylor Report of August 1, 1941

		Annually
Compensation in lieu of free passes	(Schedule A)	$108,550
Executive and office pay roll	(Schedule B)	66,887
Pensions	(Schedule C)	39,869
Joint Use of Facilities	(Schedule D)	18,953
Miscellaneous Expenses	(Schedule E)	14,949
Total Increase in Other Departments		$249,208

Schedule A

VIRGINIA ELECTRIC AND POWER COMPANY

Compensation to Employees of Electric Department in Richmond, Norfolk, Portsmouth and Petersburg, and of Gas Department in Norfolk for Loss of Free Transportation

Number of Electric and Gas Employees Receiving Free Transportation Passes	
Electric	1,494
Gas	176
Total	1,670
Annual Value of Passes	
52 Weeks @ $1.25 per Week	$ 65.00
Additional Compensation to Electric and Gas Employees Due to Loss of Free Transportation	
Electric (1,494 x $65.00)	$ 97,110
Gas (176 x $65.00)	11,440
Total	$108,550

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Engineers' Exhibit No. 228 (Cont.).

Schedule B

VIRGINIA ELECTRIC AND POWER COMPANY

Portion of Compensation of Employees Charged to Transportation Department in Taylor Report Which Would Have to be Absorbed by Other Departments in Event Transportation Department is Disposed of

	Total Annual Salary	Amount Charged to Transportation Department	Estimated Reduction	Amount to be Absorbed by Other Departments
Executives (Schedule B-1)	$126,443	$32,294	$	$32,294
Junior Executives, Supervisors and General Office Clerks (Schedule B-2)	158,797	37,731	16,400	21,331
Janitors, Maids & Bldg. Employees (Schedule B-3)	32,473	3,952	.....	3,952
Special Apportionment (Schedule B-4)	68,993	10,510	1,200	9,310
Total	$386,706	$84,487	$17,600	$66,887

Reduction in Number of Employees	Number	Rate	Annual Salary
Purchasing			
Clerks	2	$1,000	$ 2,000
Accounting			
General Clerk	1	1,500	1,500
Voucher Clerk	1	1,000	1,000
Pay Roll Clerks	3	1,200	3,600
Pay Roll Clerks	1	1,500	1,500
Stores Clerks	3	1,000	3,000
Cashiers	1	1,100	1,100
Statistics & Taxes	1	1,500	1,500
Other	2	1,200	2,400
Total	15		$17,600

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Engineers' Exhibit No. 228 (Cont.).

Schedule B-1

VIRGINIA ELECTRIC AND POWER COMPANY

Executive Salaries Charged to Transportation Department as per Taylor Report

	Total Transportation	Railway	Bus
Richmond			
President	$ 4,800.00	$ 2,400.00	$ 2,400.00
Vice-President	3,120.00	1,560.00	1,560.00
" "	2,160.00	1,380.00	1,380.00
Treasurer	2,376.00	1,188.00	1,188.00
Comptroller	2,232.00	1,116.00	1,116.00
Asst. Comptroller	1,335.60	667.80	667.80
Asst. Secretary & Public Relations	1,440.00	720.00	720.00
Asst. Comptroller & Welfare	2,497.44	1,248.72	1,248.72
Purchasing Agent	1,296.00	648.00	648.00
" "	1,200.00	600.00	600.00
Property Records	283.80	170.28	113.52
Medical Officer	3,624.00	2,047.20	1,576.80
Norfolk			
Vice-President	2,400.00	960.00	1,440.00
Asst. Comptroller	1,419.00	567.60	851.40
Petersburg			
Manager	313.25		313.25
Portsmouth			
Manager	1,197.00		1,197.00
Total	$32,294.09	$15,273.60	$17,020.49

Total 1940 Salaries to above 16 Executives $126,443

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Engineers' Exhibit No. 228 (Cont.).

Schedule B-2

VIRGINIA ELECTRIC AND POWER COMPANY

Salaries of Junior Executives, Supervisors and General Office Clerks Charged to Transportation Department as per Taylor Report

	Total 1940 Salary	Total Transportation	Railway	Bus
Asst. to President	$ 3,240.00	$ 777.60	$ 388.80	$ 388.80
Secretary to President	2,340.39	561.69	280.84	280.85
Asst to V. P., Norfolk	2,220.00	555.00	222.00	333.00
Secretary to Vice-Pres. (2)	3,914.83	959.56	429.78	529.78
Secretary to Comptroller	1,684.95	404.39	202.19	202.20
Secretary to Asst. Comptroller	1,512.00	378.00	151.20	226.80
Manager, Real Estate Dept.	2,068.55	103.43	62.06	41.37
Asst. Mgr. Real Estate Dept.	2,505.00	125.25	75.15	50.10
Manager, Insurance Dept.	3,165.00	759.60	379.80	379.80
Supervisor, Welfare Dept.	3,600.00	1,584.00	792.00	792.00
" Stenog. Dept.	2,160.00	518.40	259.20	259.20
" Filing Dept.	1,600.00	384.00	192.00	192.00
Tax Accountant	2,730.00	655.20	327.60	327.60
Tax Clerks (2)	3,938.00	945.12	472.56	472.56
Statistician	3,930.00	943.20	471.60	471.60
Statistical Clerks (4)	7,877.99	1,890.72	945.36	945.36
Buyer, Purchasing Dept.	2,040.00	489.60	244.80	244.80
Superintendent of Bldg. (2)	4,367.74	545.00	262.06	282.94
General Bookkeeper	2,460.00	590.40	295.20	295.20
Bookkeeper (2)	4,915.41	1,179.70	589.85	589.85
Supervisor—Vouchers	2,069.57	496.70	248.35	248.35
" —Pay Roll	2,310.00	554.40	277.20	277.20
Asst. Supervisor—Pay Roll	1,715.48	411.72	205.86	205.86
Super., Gen. Acctg., Norfolk	2,040.00	510.00	204.00	306.00
Special Clerk—Gen. Acctg.	2,165.44	519.71	259.85	259.86
Clerks—Purchasing (11)	13,762.12	3,314.91	1,627.46	1,687.45
" —General Acctg. (8)	13,359.49	3,225.47	1,564.74	1,660.73
" —Voucher, Pay Roll, etc. (22)	22,329.20	5,359.03	2,679.49	2,679.54
" —Miscellaneous (4)	4,453.35	1,068.80	534.40	534.40
Safety Director, Norfolk (1)	2,655.00	663.75	265.50	398.25
Stenographers (17)	13,072.23	3,137.32	1,568.65	1,568.67
Telephone Operators (10)	11,490.00	2,831.28	1,190.64	1,640.64
Messengers (9)	4,208.04	1,067.05	333.60	733.45
Clerks (Part of Year) (7)	896.78	220.61	96.82	123.79
Total (121)	$158,796.56	$37,730.61	$18,100.61	$19,630.00
Less Estimated Reduction of 14 Employees		16,400.00		
Increase in Other Departments		$21,330.61		

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Engineers' Exhibit No. 228 (Cont.).

Reduction of Employees

2	Purchasing Clerks	@	$1,000	$ 2,000
1	General Accounting Clerk	@	1,500	1,500
1	Voucher Clerk	@	1,000	1,000
3	Pay Roll Clerks	@	1,200	3,600
1	Pay Roll Clerk	@	1,500	1,500
3	Store Clerks	@	1,000	3,000
1	Cashier	@	1,100	1,100
1	Statistics and Taxes	@	1,500	1,500
1	Other	@	1,200	1,200
14	Total			$16,400

Schedule B-3

VIRGINIA ELECTRIC AND POWER COMPANY

Pay Roll of Janitors, Maids and Building Employees Charged to Transportation Department as per Taylor Report

		Total Annual Salary	Total Transportation	Railway	Bus
Maids	(20)	$ 6,396.66	$ 796.75	$ 383.80	$ 412.95
Janitors	(18)	13,110.27	1,558.22	595.02	963.20
Elevator Operators	(8)	6,876.00	842.64	412.56	430.08
Watchmen	(5)	6,090.00	754.08	365.40	388.68
Total	(51)	$32,472.93	$ 3,951.69	$1,756.78	$2,194.91
Estimated Reduction			—0—		
Increase in Other Departments			$ 3,951.69		

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Engineers' Exhibit No. 228 (Cont.).

Schedule B-4

VIRGINIA ELECTRIC AND POWER COMPANY

Special Pay Roll Employees a Portion of Whose Pay Is Allocated to Transportation Department on Basis of Special Apportionments as per Taylor Report

		Total Annual Salary	Total Transportation	Railway	Bus
Construction Accounting Clerks	(10)	$16,572.40	$ 828.62	$ 497.17	$ 331.45
Safety Engrs.—Richmond	(3)	6,600.00	1,452.00	792.00	660.00
Petersburg Employees	(11)	15,641.44	3,140.35		3,140.35
Purch. Agent—Norfolk	(1)	1,920.00	499.20	192.00	307.20
Stenographers	(2)	2,340.00	592.20	163.80	428.40
Surgeon—Norfolk	(1)	2,100.00	1,260.00	630.00	630.00
Investigator—Norfolk	(1)	2,940.00	1,764.00	687.96	1,076.04
Telephone Operators	(4)	3,578.10	782.11	312.84	469.27
Messenger	(1)	764.40	191.10	76.44	114.66
Total	(34)	$52,456.34	$10,509.58	$3,352.21	$7,157.37
Estimated Reduction (1 Clerk @ $1,200)			$ 1,200.00		
Increase in Other Departments			$ 9,309.58		

Schedule C

VIRGINIA ELECTRIC AND POWER COMPANY

Transportation Department Pensions Which Would Have to be Absorbed by Other Departments

Pensions Charged to Transportation Department in 1940 as per Taylor Report

Railway	$31,645
Bus	8,224
Total	$39,869

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Engineers' Exhibit No. 228 (Cont.).

Schedule D

VIRGINIA ELECTRIC AND POWER COMPANY

Costs of Joint Use of Facilities Charged to the Transportation Department in Taylor Report Which Would Have to be Absorbed by Other Departments in Event of Disposal of the Transportation Department

Joint Use of Facilities	Transportation Department
General Office Bldgs., Furniture and Equipment	$11,620.04
Storerooms, Garages and Equipment	1,780.61
Jointly Used Poles and Rights-of-Way	4,592.50
Jointly Used Manholes	960.00
Total	$18,953.15

Schedule E

VIRGINIA ELECTRIC AND POWER COMPANY

Miscellaneous Expenses Allocated to Transportation Department as per Taylor Report Which Would Have to be Absorbed by Other Departments in Event of Disposal of the Transportation Department

	Total	Total Transportation	Railway	Bus
Donations	$24,869.95	$ 5,968.78	$2,984.39	$2,984.39
Transfer fees:				
Stone & Webster Service Corp.	4,815.11	96.30	.....	96.30
Chase National Bank	2,046.33	40.93	.....	40.93
Vepcovian (Magazine)	2,911.00	1,280.84	640.42	640.42
Telephone	44,900.79	7,323.77	2,937.32	4,386.45
Dues and Subscriptions Schedule E-1	9,365.00	2,562.40	1,262.00	1,300.40
	$88,908.18	$17,273.02	$7,824.13	$9,448.89
Less, Estimated reductions in telephone to a continuing expense of $5,000		2,323.77		
		$14,949.25		

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Engineers' Exhibit No. 228 (Cont.).

Schedule E-1

VIRGINIA ELECTRIC AND POWER COMPANY

Larger Items of Dues and Subscriptions
(Joint Operations)

	Total	Electric	Gas	Railway	Bus
Chamber of Commerce of the United States.....	$ 300.00	$ 213.00	$ 15.00	$ 36.00	$ 36.00
Portsmouth Chamber of Commerce	500.00	360.00			140.00
Richmond Chamber of Commerce	2,500.00	1,725.00		475.00	300.00
Virginia State Chamber of Commerce	2,000.00	1,420.00	100.00	240.00	240.00
Hampton Roads Maritime Association	300.00	192.00	33.00	30.00	45.00
Norfolk Advertising Board	600.00	336.00	96.00	78.00	90.00
Norfolk Association of Commerce	400.00	224.00	64.00	52.00	60.00
Norfolk Industrial Commission	1,800.00	1,008.00	288.00	234.00	270.00
Norfolk Real Estate Board	120.00	67.20	19.20	15.60	18.00
Public Utiltiies Association of the Virginias....	845.00	599.95	42.25	101.40	101.40
	$9,365.00	$6,145.15	$ 657.45	$1,262.00	$1,300.40

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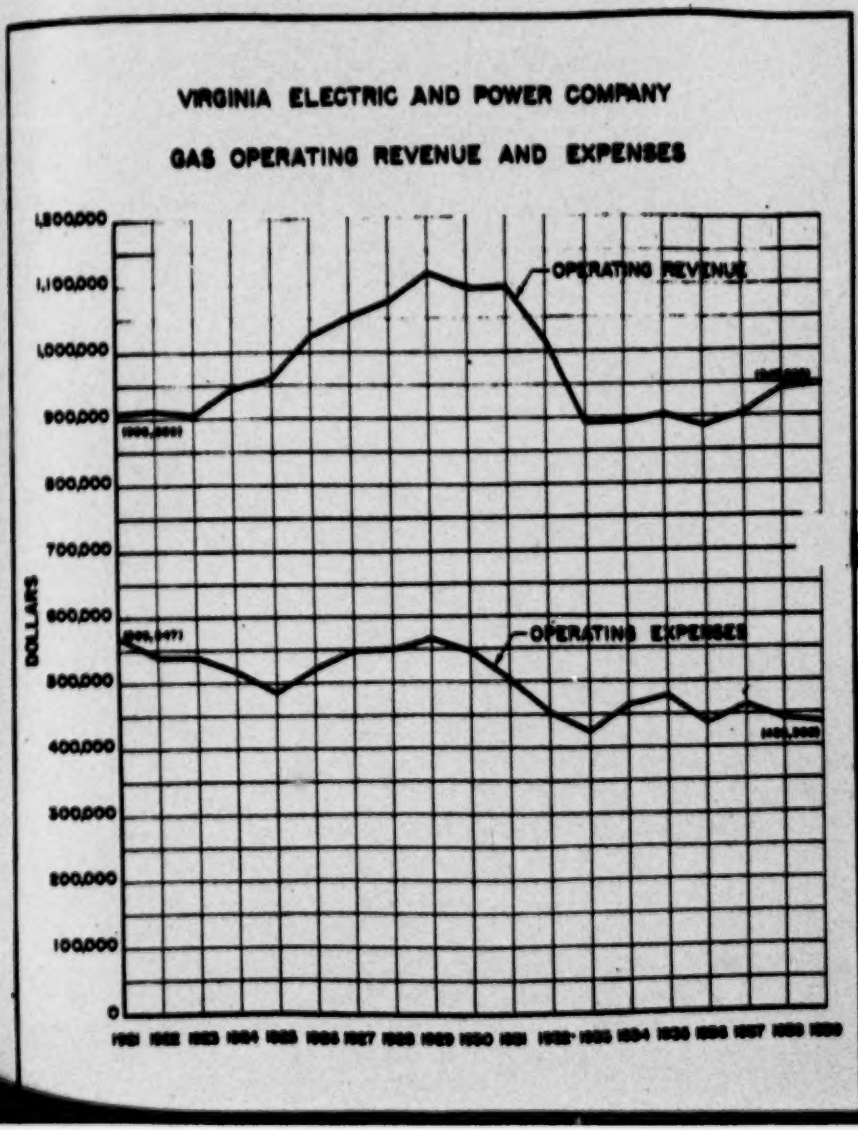
Virginia Electric and Power Company

Exhibit No. 10.

[Document No. 477—R. p. 9844.]



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VIRGINIA ELECTRIC AND POWER COMPANY

Exhibit No. 34.

[Document No. 507—R. p. 9896]

Comparison of Gas Service Rates

NORFOLK

VIRGINIA ELECTRIC AND POWER COMPANY

SCHEDULE No. 1

GENERAL SERVICE GAS RATE

First	2,000 cu. ft. per month	@	$1.20 per 1,000 cu. ft.
Next	3,000 cu. ft. per month	@	1.15 per 1,000 cu. ft.
Next	4,000 cu. ft. per month	@	1.00 per 1,000 cu. ft.
Next	10,000 cu. ft. per month	@	0.75 per 1,000 cu. ft.
Over	19,000 cu. ft. per month	@	0.60 per 1,000 cu. ft.

Monthly Minimum Charge = $0.75

RICHMOND

CITY OF RICHMOND, DEPARTMENT OF PUBLIC UTILITIES

GENERAL GAS SCHEDULE
29 G

First	2,000 cu. ft. per month	@	$1.30 per 1,000 cu. ft.
Next	8,000 cu. ft. per month	@	1.26 per 1,000 cu. ft.
Next	90,000 cu. ft. per month	@	0.80 per 1,000 cu. ft.
Next	900,000 cu. ft. per month	@	0.65 per 1,000 cu. ft.
Over	1,000,000 cu. ft. per month	@	0.50 per 1,000 cu. ft.

Monthly Minimum Charge = $0.50

PORTSMOUTH

PORTSMOUTH GAS COMPANY

GENERAL SERVICE RATE

First	10,000 cu. ft. per month	@	$1.35 per 1,000 cu. ft.
Next	40,000 cu. ft. per month	@	1.20 per 1,000 cu. ft.
Over	50,000 cu. ft. per month	@	1.15 per 1,000 cu. ft.

Prompt Pay Discount = $0.05 per 1,000 cu. ft.

Monthly Minimum Charge = $0.75

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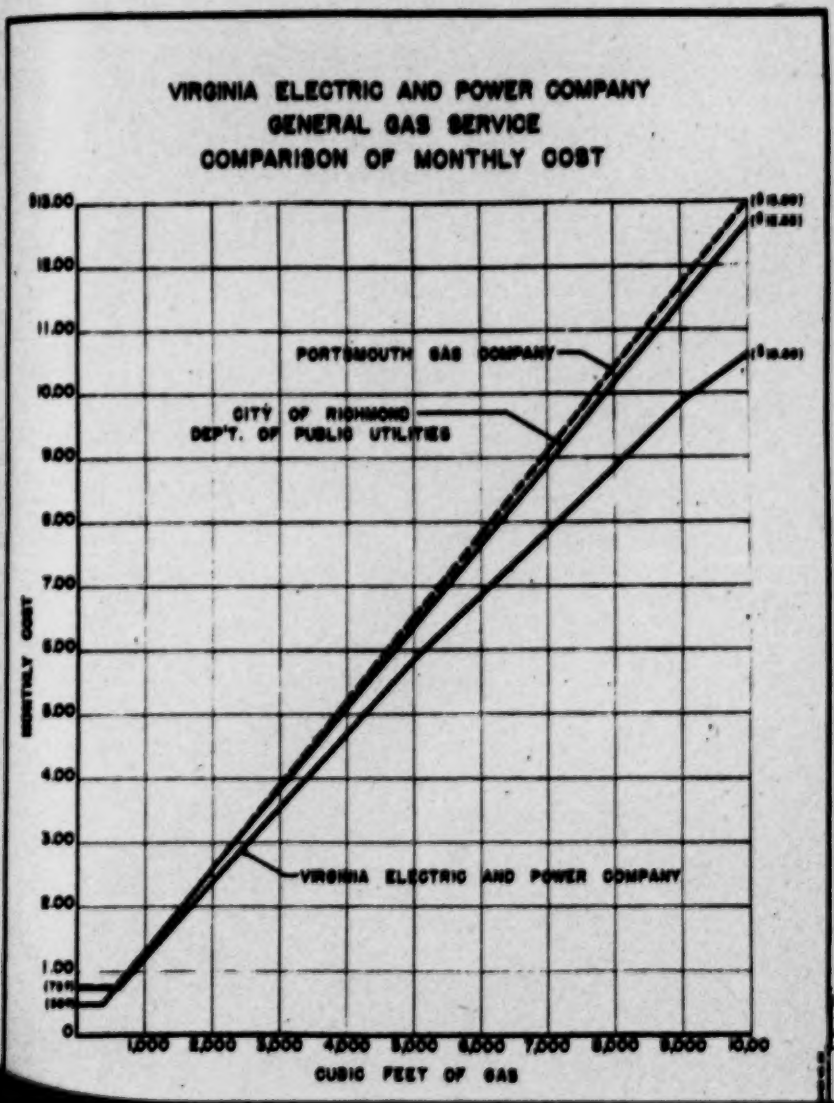
Virginia Electric and Power Company

Exhibit No. 35.

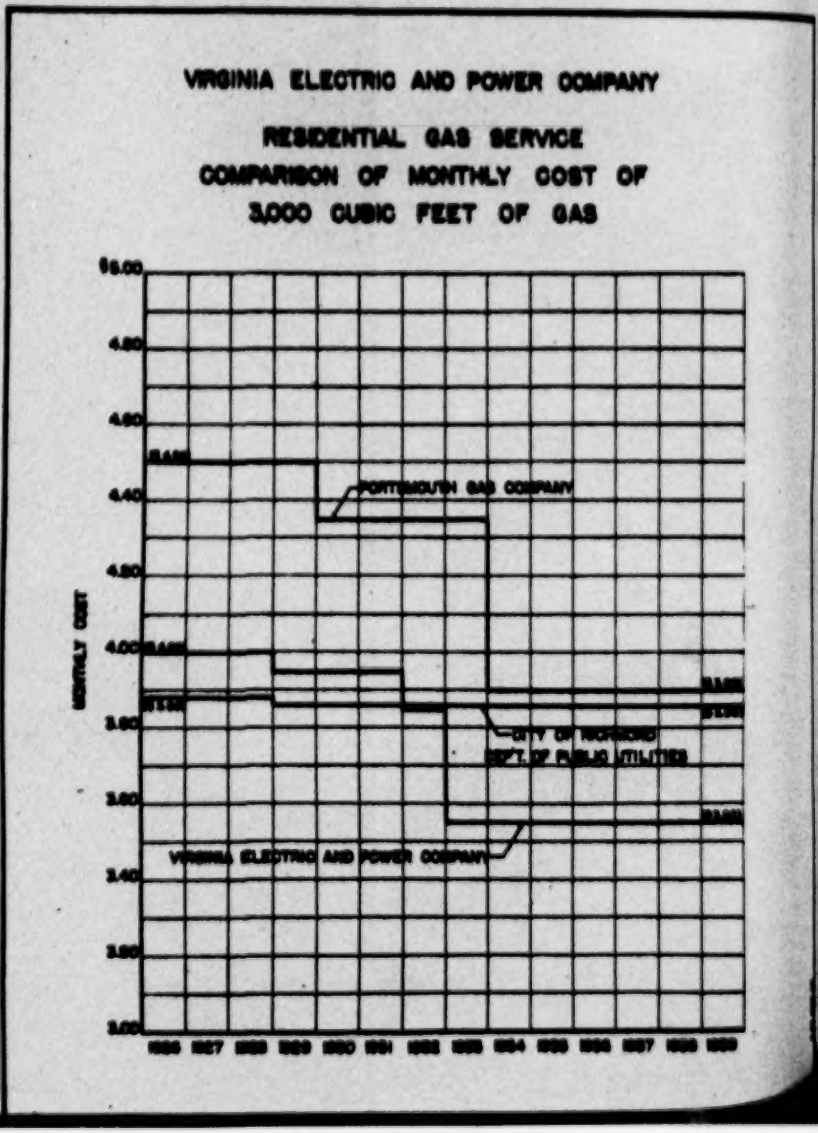
[Document No. 508—R. p. 9897.]



Virginia Electric and Power Company

Exhibit No. 36.

[Document No. 509—R. p. 9898.]



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